Primary Health Properties PLC

Preliminary results for the year ended 31 December 2021

Successful management internalisation, refinancing and operational performance drive earnings growth

Primary Health Properties PLC ("PHP", the "Group" or the "Company"), a leading investor in modern primary health facilities, announces its audited preliminary results for the year ended 31 December 2021.

Harry Hyman, Chief Executive, commented:

"2021 has been another strong year of progress for PHP, having successfully completed the internalisation of our management structure and refinanced a number of legacy loan facilities which have delivered substantial annual cost savings. In addition, we have a strong targeted pipeline and continue to see good organic rental growth from rent reviews and asset management projects with record levels of activity during the year.

"Throughout 2021 PHP has successfully worked with the NHS, HSE and the Group's GP tenants to help them utilise our properties for deployment in the front line of the COVID-19 pandemic, delivering vaccines and boosters across the UK and Ireland. The need for modern, integrated, local primary healthcare facilities is becoming ever more pressing in order to relieve the pressures being placed on hospitals and A&E departments and to catch up on the back-log of missed procedures.

"Having successfully delivered 25 years of secure and reliable growth for our shareholders, we have firmly established ourselves as a sector leader and the Board looks forward to delivering further earnings and dividend growth in 2022 and remains confident in PHP's future outlook."

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Income statement metrics	**Year to 31 December 2021**	Year to 31 December 2020	Change
Net rental income[1]	**£136.7m**	£131.2m	**+4.2%**
Adjusted earnings[1,2]	**£83.2m**	£73.1m	**+13.8%**
Adjusted earnings per share[1,2]	**6.2p**	5.8p	**+6.9%**
IFRS profit for the year	**£140.1m**	£112.0m	**+25.1%**
IFRS earnings per share[2]	**10.5p**	8.8p	
EPRA cost ratio	**9.3%**	11.9%	**-260 bps**
Dividends			
Dividend per share[5]	**6.2p**	5.9p	**+5.1%**
Dividends paid[5]	**£82.4m**	£73.3m	**+12.4%**
Dividend cover[1]	**101%**	100%	
Balance sheet and operational metrics	**31 December 2021**	31 December 2020	Change
Adjusted NTA (NAV) per share[1,3]	**116.7p**	112.9p	**+3.4%**
IFRS NTA per share[1,3]	**112.5p**	107.5p	**+4.7%**
Total adjusted NTA return[1]	**8.9%**	10.1%	**-120 bps**
Property portfolio			
Investment portfolio valuation[4]	**£2.796bn**	£2.576bn	**+4.1%**
Net initial yield ("NIY")[1]	**4.64%**	4.81%	
Total property return	**9.5%**	7.4%	**+210 bps**
Contracted rent roll (annualised)[1,7]	**£140.7m**	£135.2m	**+4.1%**
Weighted average unexpired lease term ("WAULT")[1]	**11.6 years**	12.1 years	
Occupancy	**99.7%**	99.6%	
Rent-roll funded by government bodies[1]	**90%**	90%	
Debt			
Average cost of debt	**2.9%**	3.5%	**-60 bps**
Loan to value ratio[1]	**42.9%**	41.0%	
Weighted average debt maturity – drawn facilities[8]	**8.2 years**	6.5 years	**+1.7 years**
Total undrawn loan facilities and cash[6,8]	**£321.2m**	£361.5m	

[1] Definitions for net rental income, adjusted earnings, adjusted earnings per share, earnings per share ("EPS"), dividend cover, loan to value ("LTV"), net tangible assets ("NTA"), rent roll, NIY, WAULT, Total Adjusted NTA return and net asset value ("NAV") are set out in the Glossary of Terms.
[2] See note 9, earnings per share, to the financial statements.
[3] See note 9, net asset value per share, to the financial statements. Adjusted net tangible assets, EPRA net tangible assets ("NTA"), EPRA net disposal value ("NDV") and EPRA net reinstatement value ("NRV") are considered to be alternative performance measures. The Group has determined that adjusted net tangible assets is the most relevant measure.
[4] Percentage valuation movement during the year based on the difference between opening and closing valuations of properties after allowing for acquisition costs and capital expenditure.
[5] See note 10, dividends, to the financial statements.
[6] After deducting the remaining cost to complete contracted acquisitions, properties under development and asset management projects.
[7] Percentage contracted rent roll increase during the year is based on the annualised uplift achieved from all completed rent reviews and asset management projects.
[8] Pro-forma including debt facilities secured post year-end.

DELIVERING EARNINGS AND DIVIDEND GROWTH

- Adjusted earnings per share increased by 6.9% to 6.2p (2020: 5.8p)
- Contracted annualised rent roll increased by 4.1% to £140.7 million (31 December 2020: £135.2 million)
- Additional annualised rental income on a like-for-like basis of £2.4 million or 1.8% from rent reviews and asset management projects (FY 2020: £2.0 million or 1.6%; FY 2019: £1.9 million or 1.5%)
- Successful refinancing of a number of legacy loan facilities with Aviva Investors reducing average cost of debt to 2.9% (31 December 2020: 3.5%) resulting in annualised interest cost savings of approximately £5.0 million
- Successfully completed the internalisation of the Group's management structure which resulted in annual cost savings of approximately £4.0 million, equivalent to 0.3 pence per share
- EPRA cost ratio reduced to 9.3% (FY 2020: 11.9%) the lowest in the UK REIT sector
- Quarterly dividends totalling 6.2 pence per share distributed in the year, a 5.1% increase over 2020 (5.9 pence per share)
- First quarterly dividend of 1.625 pence per share declared, payable on 25 February 2022, equivalent to 6.5 pence on an annualised basis and a 4.8% increase over the 2021 dividend per share, marking the Company's 26th consecutive year of dividend growth

DELIVERING NET ASSET VALUE GROWTH

- Adjusted Net Tangible Assets ("NTA") per share increased by 3.4% to 116.7 pence (31 December 2020: 112.9 pence)
- Property portfolio at 31 December 2021 valued at £2.8 billion (31 December 2020: £2.6 billion) reflecting a net initial yield of 4.64% (31 December 2020: 4.81%)
- Revaluation surplus, including profit on sales, was generated in the year of £110.5 million (31 December 2020: £51.4 million), representing growth of 4.1% (2020: 2.0%)
- Strong pipeline of targeted acquisitions, developments and asset management projects with a value of approximately £337 million in the UK and £107 million (€127 million) in Ireland of which £72 million and £80 million (€95 million) is in legal due diligence in both countries
- Portfolio in Ireland now comprises 20 assets, valued at £213 million (€253 million)
- The portfolio's metrics continue to reflect the secure, long-term and predictable income stream with occupancy at 99.7% (31 December 2020: 99.6%) and a WAULT of 11.6 years (31 December 2020: 12.1 years)
- Strong progression of asset management projects with 30 completed in the year and a further nine currently on-site, investing £15.0 million, creating additional rental income of £0.4 million per annum and extending the weighted average unexpired lease term (WAULT) back to over 20 years

DELIVERING FINANCIAL MANAGEMENT

- LTV ratio 42.9% (31 December 2020: 41.0%), towards the lower end of the Group's targeted range of between 40% to 50%
- Weighted average debt maturity extended to 8.2 years (31 December 2020: 6.5 years)
- Post period end €75 million private placement loan note issued for a 12-year term at a fixed rate of 1.64% to finance continued expansion in Ireland
- Refinanced a number of legacy loan facilities with Aviva Investors, with a new sustainability linked £200 million facility for a 15-year term at a fixed rate of 2.52% and renewed existing facilities with NatWest and Santander
- Significant liquidity headroom with cash and collateralised undrawn loan facilities totalling £321.2 million (2020: £361.5 million) after capital commitments

DELIVERING STRONG TOTAL RETURNS

	Year ended 31 December 2021	Year ended 31 December 2020
Increase in Adjusted NTA plus dividends paid	**8.9%**	10.1%
Income return	**5.2%**	5.2%
Capital return	**4.3%**	2.2%
Total property return[1]	**9.5%**	7.4%

[1] The definition for total property return is set out in the Glossary of Terms.

DELIVERING RESPONSIBLE BUSINESS AND ESG

- Net Zero Carbon ("NZC") Framework published with the five key steps the Group is taking to achieve the ambitious target of being NZC by 2030 for all of PHP's operational, development and asset management activities
- Construction of PHP's first two NZC developments in Lincolnshire and West Sussex about to commence in the first quarter of 2022
- All developments completed in the year achieved BREEAM rating of Excellent or Very Good and all asset management projects completed met EPC target of B or above
- £300 million of sustainability linked loan facilities with Aviva and NatWest raised in the year
- £0.2 million distributed from the Community Impact Program to charities and groups focused on social prescribing and wellbeing linked to the patients and communities served by PHP's properties

Presentation and webcast:

A virtual briefing for analysts will be held today, 16 February 2022 at 9.30am, via a live webcast and conference call facility.

The presentation will be accessible via live video webcast and a live conference call facility:

Webcast: https://webcasting.brrmedia.co.uk/broadcast/61e13c18e3976b4d1b2d6e85

Tel: +44 (0)330 336 9601

Participant PIN code: 3760982

If you would like to join the briefing, please contact Buchanan via php@buchanan.uk.com to confirm your place.

For further information contact:

Harry Hyman Chief Executive Officer Primary Health Properties PLC T: +44 (0) 20 7451 7050 E: harry.hyman@phpgroup.co.uk	Richard Howell Chief Financial Officer Primary Health Properties PLC T: +44 (0) 20 3824 1841 E: richard.howell@phpgroup.co.uk

David Rydell/Steph Whitmore/Tilly Abraham/Verity Parker
Buchanan
T: +44 (0) 20 7466 5066
E: php@buchanan.uk.com

Chairman's statement

Despite the uncertainty and volatility in the economic environment over the last two years we have continued to deliver a strong and robust operational and financial performance and the Group's portfolio has continued to demonstrate strong resilience throughout this period. The security and longevity of our income are important drivers of our predictable income stream and underpin our progressive dividend policy and we have now entered our 26th year of continued dividend growth.

Thankfully, the speed and effectiveness of the COVID-19 vaccine rollout has allowed us to return to some semblance of normality after the latest lockdown and we must offer our heartfelt thanks to the brilliant people who devised, mass produced and administered vast numbers of vaccines and boosters.

Since the start of the COVID-19 pandemic, we have seen a significant increase in the digitalisation and adaptation of triage in both the UK and Ireland with many initial consultations being carried out online. However, we have not seen and do not expect to see, any reduction in space requirements across our portfolio. This is because of the increasing burden being placed on healthcare systems in both the UK and Ireland as a consequence of the ongoing COVID-19 pandemic, along with the long-term demographic trends of populations that are growing, ageing and suffering from more instances of chronic illness. Many services are now expected to move away from hospitals and into primary care facilities which will undoubtedly require substantial investment in the future to enable non-urgent and periphery procedures to be dealt with in such facilities.

PHP has continued to actively work with the NHS in the UK, HSE in Ireland, and its GP partners in both markets to help them better utilise the Group's properties for deployment in the ongoing global health crisis. Many of our primary care facilities and occupiers have been and will be required to deliver COVID-19 vaccines and boosters for many years to come and to deal with the backlog of procedures missed over the last two years. We continue to maintain close relationships with our key stakeholders and GP partners to ensure we are best placed to help the NHS, HSE, and in particular primary care, evolve and deal with the pressures placed on them as the 'new normal' is established.

We recognise that the success of the Group depends on our people and I would again like to warmly thank the Board and all of our employees for their continued commitment, dedication and professionalism in ongoing difficult circumstances.

Acquisition of Nexus and management internalisation

On 5 January 2021, the Group successfully completed the internalisation of its management structure with shareholders representing 99.95% of the votes cast voting in favour of the internalisation which resulted in annual cost savings of approximately £4.0 million, equivalent to 0.3 pence per share, compared to the position if the business were still externally managed. The assumption of Nexus's existing management and overhead costs has resulted in lower ongoing administrative costs to the Group and the EPRA cost ratio has fallen further to 9.3% (2020: 11.9%) in the year and is now the lowest in the UK REIT sector by some margin.

Overview of results

PHP's recurring Adjusted earnings increased by £10.1 million or 13.8% to £83.2m (2020: £73.1 million) and the increase in the year was driven by cost savings arising from the internalisation of the management structure, the refinancing of a number of legacy loans with Aviva together with rental growth from our investment, rent review and asset management activities.

A revaluation surplus and profit on sales of £110.5 million (2020: £51.4 million) was generated in the year from the portfolio, equivalent to 8.3 pence per share. The valuation surplus was driven by net initial yield ("NIY") compression in the UK together with rental growth from rent reviews and asset management projects.

The acquisition of Nexus and the refinancing of a number of legacy loans with Aviva resulted in exceptional costs of £37.0 million and £24.6 million respectively being expensed in the year.

A gain on the fair value of interest rate derivatives and convertible bonds together with the amortisation of the fair value adjustment on the MedicX fixed rate debt at acquisition of £9.5 million (2020: loss of £12.1 million) resulted in a profit before tax as reported under IFRS of £141.6 million (2020: £112.4 million).

The Group has continued to selectively grow its portfolio in the year, adding nine assets for £86.6 million and selling one for £2.3 million. Rent reviews and asset management projects completed in the year, or currently on-site, added £2.4 million or 1.8% (2020: £2.0 million or 1.6%) to the contracted rent.

The Group's balance sheet remains robust with a loan to value ratio of 42.9% (2020: 41.0%), which is at the lower end of the targeted range of 40% to 50%, and has significant liquidity headroom with cash and collateralised undrawn loan facilities totalling £321.2 million (2020: £361.5 million).

Dividends

The Company distributed a total of 6.2 pence per share in 2021, an increase of 5.1% over 2020 of 5.9 pence per share. The total value of dividends distributed in the year increased by 12.4% to £82.4 million (2020: £73.3 million), which were covered by Adjusted earnings. Dividends totalling £8.0 million were satisfied through the issuance of shares via the scrip dividend scheme.

A dividend of 1.625 pence per share was declared on 6 January 2022, equivalent to 6.5 pence on an annualised basis, which represents an increase of 4.8% over the dividend distributed per share in 2021. The dividend will be paid to shareholders on 25 February 2022 who were on the register at the close of business on 13 January 2022. The dividend will comprise entirely of a normal dividend of 1.625 pence.

The Company intends to maintain its strategy of paying a progressive dividend, which the Company pays in equal quarterly instalments, that is covered by underlying earnings in each financial year. Further dividend payments are planned to be made on a quarterly basis in May, August and November 2022 which are expected to comprise a mixture of both property income distribution and normal dividend.

Total shareholder returns

The Company's share price started the year at 152.8 pence per share and closed on 31 December 2021 at 151.4 pence, a decrease of 0.9%. Including dividends, those shareholders who held the Company's shares throughout the year achieved a Total Shareholder Return of 3.1% (2020: -0.8%).

Over the three years since our merger with MedicX in 2019 we have delivered a total shareholder return of 50.2%. This compares to the total return delivered by UK real estate equities (FTSE EPRA Nareit UK Index) of 28.5% and the wider UK equity sector (FTSE All-Share Index) of 13.2% over the same period.

Environmental, Social and Governance ("ESG")

PHP has a strong commitment to responsible business and ESG matters which are at the forefront of the Board's and our various stakeholders' considerations and the Group has committed to transitioning to net zero carbon ("NZC"). We are about to start construction of PHP's first two NZC developments in the first quarter of 2022 and have published with these results, for the first time, a NZC Framework with the five key steps we are taking to achieve an ambitious target of being NZC by 2030 for all of PHP's operational, development and asset management activities and to help our occupiers achieve NZC by 2040, five years ahead of the NHS's target of becoming the world's first net zero carbon national health system by 2045 and 10 years ahead of the UK and Irish Governments' targets of 2050. Further details on our approach to responsible business can be found in the Annual Report and website.

Board changes

In December 2021, following a review of the composition and diversity of the Board, it was announced that Ivonne Cantú would be appointed as an independent Non-executive director of the Company with effect from 1 January 2022.

The Company also announced that Peter Cole, Non-executive director and Chair of the Remuneration Committee, will not stand for re-election at the Company's Annual General Meeting ("AGM") scheduled for April 2022 and will accordingly retire from the Board at that time. It is intended that Ivonne Cantú will take over as Chair of the Remuneration Committee following the AGM.

The Board is grateful to Peter for his commitment and dedication to the Company and for chairing the Remuneration Committee, particularly during the process of internalising the management in 2020 and the transition period in 2021.

Market update and outlook

PHP's mission is to support the NHS, HSE and other healthcare providers, by being a leading investor in modern, primary care premises. Never has this been more important as the NHS seeks to work through the backlog of procedures created by the COVID-19 pandemic and the Government delivers its Levelling Up agenda. In the longer term, the ageing demographic of western populations means that health services will also be called upon to address more ongoing, complex, chronic co-morbidities. PHP stands ready to play its part in delivering the real estate infrastructure required to meet this need in the community.

We will continue to actively engage with government bodies, the NHS, HSE in Ireland and other key stakeholders to establish, enact (where we can), support and help alleviate increased pressures and burdens currently being placed on healthcare networks.

In July 2021, the UK Government published a draft Health and Social Care Bill setting out a number of reforms in order to implement the commitments of the NHS England Long Term Plan. This included the introduction of regional Integrated Care Boards and Partnerships tasked with co-ordinating NHS partners with local government services and budgets such as social care and mental health, in a geographic area, for the first time; the idea being that services are then pushed to the most efficient, cost-effective part of the system (whether primary care, hospital or care home) for the best patient outcomes. We welcome these reforms and are hopeful they will lead to better outcomes for patients and to further development opportunities in primary care in the medium to long-term.

Despite the continued volatility in the economic and political environment and the prolonged era of low interest rates, there continues to be an unrelenting search for secure, long and reliable income. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary of this trend. The UK and Irish markets for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector throughout 2021.

We believe that our activities benefit not only our shareholders but also our wider stakeholders, including our occupiers, patients, the NHS and HSE, suppliers, lenders and the wider communities in both the UK and Ireland.

We look forward to 2022 with confidence in our ability to create further stakeholder value.

Steven Owen
Chairman

15 February 2022

BUSINESS REVIEW

Investment and pipeline

During 2021, the market was characterised by a lack of suitable product, strong pricing and a very competitive market. However, we continued to make strong progress in the second half of the year selectively acquiring nine assets in 2021 for £86.6 million (2020: 27 assets, £93.0 million) and selling one asset for £2.3 million.

Including standing investments, direct and forward funded developments and asset management projects, we have continued to generate and grow a strong pipeline totalling approximately £337 million in the UK and £107 million (€127 million) in Ireland of which £72 million and £80 million (€95 million) is in legal due diligence in both countries.

Pipeline	Number	UK	Ireland
Investment	11	£87m	£18m (€22m)
Direct development	21	£163m	-
Forward funded development	12	£20m	£89m (€105m)
Asset management	100+	£67m	-
Total pipeline	143+	£337m	£107m (€127m)

Net zero carbon ("NZC") direct developments

The acquisition of Nexus in January 2021, enabled PHP to acquire the development expertise of Nexus Developments which at the time of completion had a pipeline of approximately £80 million of direct development opportunities at varying stages of progression.

Over the course of 2021 the Group has continued to make good progress, increase the number of live projects and is on schedule to commence construction of PHP's first NZC developments in Lincolnshire and West Sussex in the first quarter of 2022. The two projects have an estimated capital value of £11 million and are expected to generate a profit on cost of approximately 11%.

In addition to the above, the Group has a significantly advanced pipeline of £42 million across five projects of direct developments which will be progressed over the course of 2022 together with a wider medium-term pipeline at various stages of progress across 14 projects with an estimated capital value of £110 million.

PHP expects that all future direct developments will be constructed to NZC standards.

Forward funded developments

During the year, four UK forward funded developments at Mountain Ash, Wales, Llanbradach, Wales, Epsom, Surrey and at Eastbourne, East Sussex were completed on time and on budget with a net development cost of £20.1 million.

The Group now has two forward funded developments currently on site at Arklow, County Wicklow (£15.1 million/€18.0 million) and Enniscorthy, County Wexford (£10.6 million/€12.6 million) which continue to progress on schedule, remain on site and are due to reach practical completion in Q1 2022 as previously indicated.

Rental growth

PHP's sector leading metrics remain good and we continue to focus on delivering the organic rental growth that can be derived from our existing assets. This growth arises mainly from rent reviews and asset management projects (extensions, refurbishments and lease re-gears) which provide an important opportunity to increase income, extend lease terms, avoid obsolescence and improve the environmental performance of our assets whilst ensuring that they continue to meet the communities' healthcare needs.

Rent reviews

During 2021, the Group concluded and documented 375 rent reviews, including 74 reviews where no uplift was achieved, in the UK with a combined rental value of £49.5 million resulting in an uplift of £2.0 million (2020: £1.7 million) per annum or 4.0% (2020: 4.3%) which equates to 1.7% (2020: 1.8%) per annum. The positive rate of rental growth is broadly in line with the rate of growth experienced in the last couple of years.

In the year, an aggregate 1.5% per annum uplift (2020: 1.3%) was achieved on 159 open market reviews. Uplifts of 2.8% (2020: 2.3%) per annum were achieved on RPI-based reviews and 2.7% (2020: 2.9%) per annum on fixed uplift reviews. In addition, a further 236 open market reviews have been agreed in principle, which will add another £1.7 million to the contracted rent roll when concluded and represents an uplift of 1.6% per annum.

69% of our rents are reviewed on an open market basis, typically every three years and are impacted by land and construction inflation. Over recent years, there have been significant increases in these costs which is expected to result in further rental growth in the future. The balance of the PHP portfolio has either indexed/RPI (25%) or fixed uplift (6%) based reviews which also provide an element of certainty to future rental growth within the portfolio. In Ireland all rents are linked to the Irish Consumer Price Index.

At 31 December 2021 the rent at 635 tenancies, representing £84.9 million of passing rent (2020: 669 tenancies/£90.4 million of passing rent), was under negotiation and the large number of outstanding reviews reflects the requirement for all awards to be agreed with the District Valuer. A great deal of evidence to support open market reviews comes from the completion of historic rent reviews, delivery of new properties into the sector and we continue to see positive momentum in the demand, commencement and delivery for new, purpose-built premises which are being supported by NHS initiatives to modernise the primary care estate.

In Ireland, we concluded 12 indexed based reviews adding a further £0.1 million (€0.1 million) equivalent to 0.8% per annum to the contracted rent roll.

Asset Management Projects

30 asset management projects have been completed in the year and a further nine are currently on site which will increase rental income by a further £0.4 million per annum, investing £15.0 million to enhance and extend existing assets within PHP's portfolio.

PHP continues to work closely with its occupiers and has a strong pipeline of over 100 similar projects which are being progressed to further increase rental income and extend unexpired occupational lease terms. The asset management pipeline will require the investment of approximately £67 million, generating an additional £1.3 million of rental income and extending the WAULT on those premises back to an average of over 20 years.

The Company will continue to invest capital in a range of physical extensions or refurbishments through asset management projects which help avoid obsolescence and are key to maintaining the longevity and security of our income through long-term occupier retention, increased rental income and extended occupational lease terms, adding to both earnings and capital values.

Sector leading portfolio metrics

The portfolio's annualised contracted rent roll at 31 December 2021 was £140.7 million, an increase of £5.5 million or 4.1% in the year (31 December 2020: £135.2 million) driven predominantly by acquisitions in the UK and Ireland that contributed £4.1 million. Organic rental growth from rent reviews and asset management projects added a further £2.4 million although these gains were offset slightly by foreign exchange movements since the start of the year.

The security and longevity of our income are important drivers of our predictable income stream and underpin our progressive dividend policy.

Security: PHP continues to benefit from secure, long term cash flows with 90% of its rent roll funded directly or indirectly by the NHS in the UK or HSE in Ireland. The portfolio also benefits from an occupancy rate of 99.7% (2020: 99.6%).

Rental collections: continue to remain robust and as at 15 February 2022 97% had been collected in both the UK and Ireland for the first quarter of 2022. This is in-line with collection rates experienced in both 2021 and 2020 which now stand at over 99% for both countries. The balance of rent due for the first quarter of 2022 is expected to be received shortly.

Longevity: The portfolio's WAULT at 31 December 2021 was 11.6 years (31 December 2020: 12.1 years). Only £8.9 million or 6.3% of our income expires over the next three years of which c. 70% is either subject to a planned asset management initiative or terms have been agreed to renew the lease. £73.1 million or 52.0% expires in over 10 years. The table below sets out the current lease expiry profile of our income:

Income subject to expiry	£ million	%
< 3 years	8.9	6.3%
4 – 5 years	9.3	6.6%
5 – 10 years	49.4	35.1%
10 – 15 years	39.2	27.9%
15 – 20 years	17.3	12.3%
> 20 years	16.6	11.8%
Total	140.7	100.0%

Valuation and returns

At 31 December 2021, the Group's portfolio comprised 521 assets independently valued at £2.796 billion (31 December 2020: £2.576 billion). After allowing for acquisition costs and capital expenditure on forward funded developments and asset management projects, the portfolio generated a valuation surplus of £110.2 million or 4.1% (2020: £51.4 million or 2.0%). One asset was sold in the year generating a profit on sale of £0.3 million. The valuation surplus was driven mainly by NIY compression in the UK for government backed, long-dated income together with rental growth from rent reviews and asset management projects.

During the year the Group's portfolio NIY has contracted by 17bps to 4.64% (31 December 2020: 4.81%) and the true equivalent yield reduced to 4.74% at 31 December 2021 (31 December 2020: 4.84%).

At 31 December 2021, the portfolio in Ireland comprised 20 assets, including two assets currently under development, valued at £213.0 million or €253.4 million (31 December 2020: 18 assets/£197.7 million or €221.1 million). The costs to complete the developments are £9.0 million (€10.7 million) and once complete the assets in Ireland will be valued at approximately £222.1 million (€264.2 million).

The portfolio's average lot size has increased to £5.4 million (31 December 2020: £5.0 million) and 86.6% of the portfolio is valued at over £3.0 million. The Group only has five assets valued at less than £1.0 million.

	Number of Properties	Valuation £ million	%	Average lot size (£ million)
> £10m	59	892.6	32.0	15.1
£5m - £10m	131	909.7	32.6	6.9
£3m - £5m	155	615.3	22.0	4.0
£1m - £3m	171	368.9	13.2	2.2
< £1m (including land £1.5m)	5	4.9	0.2	0.7
Total[1]	521	2,791.4	100.0	5.4

[1] Excludes the £4.5m impact of IFRS 16 *Leases* with ground rents recognised as finance leases.

The underlying valuation uplift and profit on sales of £110.5 million, combined with the portfolio's growing income, helped to deliver a total property return of 9.5% in the year (2020: 7.4%).

	Year ended 31 December 2021	Year ended 31 December 2020
Income return	**5.2%**	5.2%
Capital return	**4.3%**	2.2%
Total return	**9.5%**	7.4%

FINANCIAL REVIEW

PHP's Adjusted earnings increased by £10.1 million or 13.8% to £83.2 million in 2021 (2020: £73.1 million). The increase reflects twelve months of cost saving synergies arising from the acquisition of Nexus and internalisation of the management structure at the start of the year, good organic rental growth from rent reviews and asset management projects together with interest cost savings arising from the reduction in the Group's cost of finance following the refinancing of a number of legacy loan facilities with Aviva.

Using the weighted average number of shares in issue in the year the Adjusted earnings per share increased to 6.2 pence (2020: 5.8 pence), an increase of 6.9%.

A revaluation surplus and profit on sales of £110.5 million (2020: £51.4 million) was generated in the year from the portfolio driven by yield compression in the UK for government backed income together with rental growth from rent reviews and asset management projects.

The acquisition of Nexus at the start of the year resulted in an exceptional termination payment and impairment of goodwill totalling £35.3 million and represents the fair value of the consideration paid of £34.1 million plus the fair value of the net liabilities acquired of £1.2 million. In addition, acquisition costs totalling £1.7 million have been expensed.

The refinancing of a number of legacy loan facilities with Aviva Investors, with a new sustainability linked £200 million facility for a 15-year term at a fixed rate of 2.52% resulted in an exceptional early termination cost of £24.6 million.

A gain on the fair value of interest rate derivatives and convertible bonds together with the amortisation of the fair value adjustment on the MedicX fixed rate debt at acquisition of £9.5 million (2020: loss £12.1 million) contributed to the profit before tax as reported under IFRS of £141.6 million (2020: £112.4 million).

The financial results for the Group are summarised as follows:

Summarised results	**Year ended 31 December 2021 £ million**	Year ended 31 December 2020 £ million
Net rental income	**136.7**	131.2
Administrative expenses	**(10.5)**	(13.2)
Operating profit before revaluation gain and net financing costs	**126.2**	118.0
Net financing costs	**(43.0)**	(44.9)
Adjusted earnings	**83.2**	73.1
Revaluation surplus on property portfolio and profit on sales	**110.5**	51.4
Termination payment and impairment of goodwill on acquisition of Nexus	**(35.3)**	-
Nexus acquisition costs	**(1.7)**	-
Exceptional item – early termination cost on refinancing of Aviva debt	**(24.6)**	-
Fair value gain/(loss) on interest rate derivatives and convertible bond	**1.6**	(15.2)
Amortisation of MedicX debt MtM at acquisition	**7.9**	3.1
IFRS profit before tax	**141.6**	112.4
Corporation tax	**(0.1)**	(0.1)
Deferred tax provision	**(1.4)**	(0.3)
IFRS profit after tax	**140.1**	112.0

Net rental income receivable in the year increased by 4.2% or £5.5 million to £136.7 million (2020: £131.2 million).

Following the internalisation of the management structure, operational costs have continued to be managed closely and effectively. Overall property and administrative costs, excluding service charge costs recoverable, have fallen by £3.1 million or 18.6% to £13.6 million (2020: £16.7 million). The Group's EPRA cost ratio is now the lowest in the sector at 9.3%, a decrease against the 11.9% incurred during the 2020 financial year reflecting the cost savings of approximately £4.0 million per annum, arising from the internalisation of the management structure partially offset by larger performance related pay, due to the strong performance in the year, additional staff and cost inflation on administrative costs.

EPRA cost ratio	**Year ended 31 December 2021 £ million**	Year ended 31 December 2020 £ million
Gross rent less ground rent, service charge and other income	**139.6**	134.6
Direct property expense	**8.9**	7.8
Less: service charge costs recovered	**(5.8)**	(4.3)
Non-recoverable property costs	**3.1**	3.5
Administrative expenses	**10.5**	13.2
Less: ground rent	**(0.2)**	(0.2)
Less: other operating income	**(0.4)**	(0.4)
EPRA costs (including direct vacancy costs)	**13.0**	16.1
EPRA cost ratio	**9.3%**	11.9%
Total expense ratio (administrative expenses as a percentage of gross asset value)	**0.4%**	0.5%

Despite net debt increasing in the year by £143.8 million as a result of continued investment, net finance costs in the year decreased to £43.0 million (2020: £44.9 million) reflecting the reductions in the average cost of debt achieved from various refinancing initiatives in both 2021 and 2020.

Shareholder value and total accounting return

The Adjusted Net Tangible Assets ("NTA"), per share increased by 3.8 pence or 3.4% to 116.7 pence (31 December 2020: 112.9 pence per share) during the year with the revaluation surplus and profit on sales of £110.5 million or 8.3 pence per share being the main reason for the increase although this was partially offset by the £37.0 million or 2.4 pence per share cost of the Nexus acquisition and internalisation of the management structure and £24.6 million or 1.9 pence per share early termination cost on refinancing a number of Aviva legacy loans. Dividends distributed in the year were covered by recurring Adjusted earnings with no impact on NTA.

The total adjusted NTA (NAV) return per share, including dividends distributed, in the year was 10.0 pence or 8.9% (2020: 10.9 pence or 10.1%). Over the three years since our merger with MedicX in 2019 we have delivered a total NAV return of 27.9%.

The table below sets out the movements in the Adjusted NTA and EPRA Net Disposal Value (NDV) per share over the year under review.

Adjusted Net Tangible Asset (NTA) per share	**31 December 2021 pence per share**	31 December 2020 pence per share
Opening Adjusted NTA per share	**112.9**	107.9
Adjusted earnings for the year	**6.2**	5.8
Dividends paid	**(6.2)**	(5.9)
Revaluation of property portfolio	**8.3**	3.9
Net impact of Nexus acquisition	**(2.4)**	-
Net impact of Aviva refinancing	**(1.9)**	-
Shares issued	**0.2**	2.7
Foreign exchange movements	**(0.3)**	-
Interest rate derivative transactions	**(0.1)**	(1.5)
Closing Adjusted NTA per share	**116.7**	112.9
Fixed rate debt and swap mark-to-market value	**(4.1)**	(9.9)
Convertible bond fair value adjustment	**(1.6)**	(1.9)
Deferred tax	**(0.3)**	(0.3)
Closing EPRA NDV per share	**110.7**	100.8

Financing

In October 2021, the Group refinanced a number of legacy loan facilities with Aviva Investors with a new £200 million facility for a 15-year term at a fixed rate of 2.52% and renewed its existing £100 million facility with NatWest. Sustainability KPIs have been incorporated into both facilities based around PHP's existing environment targets and the Group will benefit from a margin reduction, conditional on achieving these targets.

Post year-end, the Group issued a new €75 million (£63 million) secured private placement loan note to MetLife for a 12-year term at a fixed rate of 1.64%. The loan notes have the option to be increased by a further €75 million to €150 million over the next three years at the lender’s discretion. The proceeds will be used to finance the Group’s continued investment in Ireland.

Post year-end, the Group also renewed its existing revolving credit facility with Santander (£50 million) for an initial three-year term with options to extend by a further year at both the first and second anniversaries of the facility.

Including the facilities secured post year-end, the Group has £1,550.5 million (31 December 2020: £1,456.8 million) of debt facilities available to it, of which £1,232.9 million (31 December 2020: £1,159.3 million) had been drawn.

Cash balances of £33.4 million (31 December 2020: £103.6 million) resulted in Group net debt of £1,199.5 million (31 December 2020: £1,055.7 million). Contracted capital commitments at the balance sheet date totalled £29.8 million (31 December 2020: £39.6 million) and result in headroom available to the Group of £321.2 million (31 December 2020: £361.5 million).

Capital commitments comprise investment expenditure of £10.7 million, forward funded development expenditure of £9.0 million and asset management projects on site of £10.1 million.

The Group's key debt metrics are summarised in the table below:

Debt metrics[1]	**31 December 2021**	31 December 2020
Average cost of debt – fully drawn[1]	**2.7%**	3.1%
Average cost of debt – drawn[1]	**2.9%**	3.5%
Loan to value	**42.9%**	41.0%
Loan to value – excluding convertible bond	**37.5%**	35.2%
Net rental income to net interest cover	**3.2 times**	2.9 times
Weighted average debt maturity – all facilities[1]	**7.3 years**	7.6 years
Weighted average debt maturity – drawn facilities[1]	**8.2 years**	6.5 years
Total drawn secured debt	**£1,082.9m**	£1,009.3m
Total drawn unsecured debt	**£150.0m**	£150.0m
Total undrawn facilities and available to the Group[1,2]	**£321.2m**	£361.5m
Unfettered assets[1]	**£104.9m**	£88.4m

1 – Pro-forma including debt facilities secured post year-end.
2 - After deducting capital commitments.

Average cost of debt

The Group's marginal cost of debt on its revolving credit facilities is just 1.8% following the refinancing's noted above. As these facilities are drawn the Group's average cost of drawn debt will continue to fall from the current 2.9% to 2.7%, assuming fully drawn.

The Group still has £386 million of legacy loans, acquired with the merger of MedicX in 2019, at a blended fixed rate of 4.2% and a weighted average maturity of 9.7 years. Excluding these facilities, the Group's average cost of debt is 2.3% and we continue to look at further opportunities to reduce the Group's average cost of debt and deliver further finance cost-saving synergies.

Interest rate exposure

The analysis of the Group's exposure to interest rate risk in its debt portfolio as at 31 December 2021 is as follows:

	Facilities[1]		Drawn	
	£ million	%	£ million	%
Fixed rate debt[1]	1,075.5	69.4	1,075.5	87.2
Hedged by fixed rate interest rate swaps	188.0	12.1	188.0	15.3
Hedged by fixed to floating rate interest rate swaps	(200.0)	(12.9)	(200.0)	(16.2)
Total fixed rate debt	1,063.5	68.6	1,063.5	86.3
Hedged by interest rate caps	200.0	12.9	200.0	16.2
Floating rate debt – unhedged	287.0	18.5	(30.6)	(2.5)
Total	**1,550.5**	**100.0**	**1,232.9**	**100.0**

1 – Pro-forma including debt facilities secured post year-end.

Interest rate swap contracts

Following the refinancing of a number of legacy loan facilities with Aviva Investors with a new £200 million facility the Group swapped the 2.52% fixed rate back to variable rate, 3-month SONIA plus a spread of 160bps, for a limited three-year period to take advantage of the shorter dated variable interest rates and to offset the short-term over-hedged position regarding fixed rate debt. To mitigate the risk of further interest rate rises we purchased 1.25% caps with a nominal value of £200 million to cover the same period at a cost of £1.8 million or 0.1 pence per share.

Accounting standards require PHP to mark its interest rate swaps to market at each balance sheet date. During the year there was a gain of £2.7 million (2020: loss £8.5million) on the fair value movement of the Group's interest rate derivatives due primarily to increases in interest rates assumed in the forward yield curves used to value the interest rate swaps. As at 31 December 2021 the mark-to-market ("MtM") value of the swap and cap portfolio was an asset of £4.4 million (31 December 2020: liability of £0.1 million).

Currency exposure

The Group now owns €253.4 million or £213.0 million (31 December 2020: €221.1 million / £197.7 million) of Euro denominated assets in Ireland as at 31 December 2021 and the value of these assets and rental income represented just 8% of the Group's total portfolio. In order to hedge the risk associated with exchange rates, the Group has chosen to fund its investment in Irish assets through the use of Euro denominated debt, providing a natural asset to liability hedge, within the overall Group loan to value limits set by the Board. At 31 December 2021 the Group had €186.5 million (31 December 2020: €163.6 million) of drawn euro denominated debt.

Euro rental receipts are used to first finance Euro interest and administrative costs and surpluses are used to fund further portfolio expansion.

Fixed rate debt mark-to-market ("MtM")

The MtM of the Group's fixed rate debt as at 31 December 2021 was £58.9 million (31 December 2020: £130.3 million) equivalent to 4.4 pence per share (31 December 2020: 9.9 pence). The large decrease in the MtM during the year is due to the refinancing of various legacy loans with Aviva Investors and increases in interest rates assumed in the forward yield curves used to value the debt during the year. The MtM valuation is sensitive to movements in interest rates assumed in forward yield curves.

Convertible bonds

In July 2019, the Group issued for a six-year term new unsecured convertible bonds with a nominal value of £150 million and a coupon of 2.875% per annum. Subject to certain conditions, the new bonds will be convertible into fully paid Ordinary Shares of the Company and the initial exchange price was set at 153.25 pence per Ordinary Share. The exchange price is subject to adjustment if dividends paid per share exceed 2.8 pence per annum and in accordance with the dividend protection provisions the conversion price has been adjusted to 142.29 pence per Ordinary Share.

The conversion of the £150 million convertible bond into new Ordinary Shares would reduce the Group's loan to value ratio by 5.4% from 42.9% to 37.5% and result in the issue of 105.4 million new Ordinary Shares.

RISK MANAGEMENT AND PRINCIPAL RISKS

The Board believes the Group has strong long term prospects, being well positioned to address the need for better primary healthcare buildings in the UK and Ireland.

Risk management overview

Effective risk management is a key element of the Board's operational processes. Risk is inherent in any business, and the Board has determined the Group's risk appetite, which is reviewed on an annual basis. Group operations have been structured in order to accept risks within the Group's overall risk appetite, and to oversee the management of these risks to minimise exposure and optimise the returns generated for the accepted risk. The Group aims to operate in a low risk environment, appropriate for its strategic objective of generating progressive returns for shareholders. Key elements of maintaining this low risk approach are:

- Investment focuses on the primary health real estate sector which is traditionally much less cyclical than other real estate sectors.
- The majority of the Group's rental income is received directly or indirectly from government bodies in the UK and Ireland.
- The Group benefits from long initial lease terms, largely with upwards-only review terms, providing clear visibility of income.
- The Group has a very small (£0.7 million) exposure as a direct developer of real estate, which means that the Group is not materially exposed to risks that are inherent in property development.
- The Board funds its operations so as to maintain an appropriate mix of debt and equity.
- Debt funding is procured from a range of providers, maintaining a spread of maturities, currencies and a mix of terms so as to fix or hedge the majority of interest costs.
- The structure of the Group's operations includes rigorous, regular review of risks and how these are mitigated and managed across all areas of the Group's activities. The Group faces a variety of risks that have the potential to impact on its performance, position and longer term viability. These include external factors that may arise from the markets in which the Group operates, government and fiscal policy and general economic conditions and internal risks that arise from how the Group is managed and chooses to structure its operations.

Approach to risk management

Risk is considered at every level of the Group's operations and is reflected in the controls and processes that have been put in place across the Group. The Group's risk management process is underpinned by strong working relationships between the Board and the management team which enables the prompt assessment and response to risk issues that may be identified at any level of the Group's business.

The Board is responsible for effective risk management across the Group and retains ownership of the significant risks that are faced by the Group. This includes ultimate responsibility for determining and reviewing the nature and extent of the principal risks faced by the Group and assessing the Group's risk management processes and controls. These systems and controls are designed to identify, manage and mitigate risks that the Group faces but will not eliminate such risks and can provide reasonable but not absolute assurance.

The management team assists the Board in its assessment and monitoring of operational and financial risks and PHP has in place robust systems and procedures to ensure risk management is embedded in its approach to managing the Group's portfolio and operations. PHP has established a Risk Committee that is formed of members of its senior management team and chaired by the CFO who is experienced in the operation and oversight of risk management processes, with independent standing invitees attending throughout the year.

The Audit Committee reviews the Group's systems of risk management and their effectiveness on behalf of the Board. These systems and processes have been in place for the year under review and remained in place up to the date of approval of the Annual Report and Accounts.

PHP has implemented a wide-ranging system of internal controls and operational procedures that are designed to manage risk as effectively as possible, but it is recognised that risk cannot be totally eliminated. Staff employed by PHP are intrinsically involved in the identification and management of risk. Strategic risks are recorded in a risk register and are assessed and rated within a defined scoring system.

The Risk Committee reports its processes of risk management and rating of identified risks to the Audit Committee. The risk register is reviewed and updated twice annually by the secretary assisted by members of the Risk Committee, and assesses inherent risks the business faces, as well as the residual risk after specific safeguards, mitigation and/or management actions have been overlaid. The risk register forms an appendix to the report which details risks that have (i) an initial high inherent risk rating, and (ii) higher residual risk ratings. The Audit Committee in turn agrees those risks that will be managed by management and those where the Board will retain direct ownership and responsibility for managing and monitoring those risks.

The Board recognises that it has limited ability to control a number of the external risks that the Group faces, such as government policy, but keeps the possible impact of such risks under review and considers them as part of its decision-making process.

Principal risks and uncertainties

The Board has undertaken a robust assessment of the emerging and principal risks faced by the Group that may threaten its business model, future performance, solvency or liquidity and its ability to meet the overall objective of the Group of delivering progressive returns to shareholders through a combination of earnings growth and capital appreciation. A result of this assessment was to remove COVID-19 as a principal risk in the year as a result of the impact being less material than envisaged, and to introduce a new principal risk, responsible business. The new principal risk is a direct result of the greater scrutiny by both regulators and investors, as well as recent political agendas that are expected to impose that further environmental initiatives be mandated. These are set out below:

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
Grow property portfolio					
Competition The emergence of new purchasers in the sector and the recent slowing in the level of	**High** Likelihood is high and impact of occurrence could be major.	Unchanged	In terms of values, the Group has benefited from a flight to income as a consequence of the current wider economic uncertainty – investors have been attracted to the	The reputation and track record of the Group in the sector means it is able to source forward funded developments and existing standing investments from developers, investors and owner-occupiers.	**Medium** The Group's position within the sector and commitment to and understanding of the asset class mean PHP is aware of a high proportion of transactions in the market and potential

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
approvals of new centres in the UK may restrict the ability of the Group to secure new investments.			sector due to its long term, secure, government-backed cash flows. Lack of supply, as a consequence of the low number of new development approvals in the UK, has also contributed to the increase in values. However, the same increase in demand and lack of supply have meant that the Group is facing increased competition for viable opportunities.	As a result, the Group has a number of formal pipeline agreements and long-standing development relationships that provide an increased opportunity to secure developments that come to market in the UK and Ireland. The Group has a strong, identified pipeline of investment opportunities in the UK and Ireland.	opportunities coming to market. Active management of the property portfolio generates regular opportunities to increase income and lease terms and enhance value.
Financing The Group uses a mix of shareholder equity and external debt to fund its operations. A restriction on the availability of funds would limit the Group's ability to invest. Furthermore, a more general lack of equity or debt available to the sector	**High** Likelihood of a restricted supply is moderate but the potential impact of such a restriction could be major.	Unchanged	The Company successfully completed two debt refinances during the year, entering into one new revolving credit facility of £100 million with NatWest, as well as refinancing £200 million of legacy debt with Aviva. The Company entered into a new £50 million revolving credit facility with Santander and €75 million Euro private placement immediately post year end. The Group's undrawn facilities	Existing and new debt providers are keen to provide funds to the sector and specifically to the Group, attracted by the strength of its cash flows. The Board monitors its capital structure and maintains regular contact with existing and potential equity investors and debt funders. Management also closely monitors debt markets to formulate its most appropriate funding structure. The terms of the completed revolving credit facilities are three years with the option to extend for a further two years at the lender's	**Medium** The Group takes positive action to ensure continued availability of resource, maintain a prudent ratio of debt and equity funding and refinance debt facilities in advance of their maturity.

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
could reduce demand for healthcare assets and therefore impact values.			mean it currently has headroom of £321 million, after taking into account the debt financings completed in the first quarter of 2022. All covenants have been met with regard to the Group's debt facilities and these all remain available for their contracted term.	discretion. The Aviva refinance was completed for a 15-year term and Euro private placement was executed for a 12-year term, further increasing PHP's average debt profile to 7.3 years.	
Manage effectively and efficiently					
Lease expiry management The bespoke nature of the Group's assets can lead to limited alternative use. Their continued use as fit-for-purpose medical centres is key to delivering the Group's strategic objectives.	**Medium** Likelihood of limited alternative use value is moderate but the impact of such values could be serious.	Unchanged	Lease terms for all property assets will erode and the importance of active management to extend the use of a building remains unchanged.	Management meets with occupiers on an ongoing basis to discuss the specific property and the tenant's aspirations and needs for their future occupation. 39 projects either completed or started on site in the period, enhancing income and extending occupational lease terms. In addition, there is a strong pipeline of over 100 projects that will be progressed in 2022 and coming years. Only 12.9% of the Group's income expires in the next five years and management is actively	**Medium** Management employs an active asset management programme and has a successful track record of securing enhancement projects and securing new long term leases.

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
				managing these lease expiries.	
People The inability to attract, retain and develop our people to ensure we have the appropriate skill base in place in order for us to implement our strategy.	**Medium** Likelihood and potential impact could be medium.	Unchanged	As the country's post COVID-19 economic recovery continues, and with inflation of 5% in the year, the risk of staff retention has increased in a very competitive market.	Succession planning is in place for all key positions, and will be reviewed regularly by the Nomination Committee. Remuneration incentives are in place such as bonuses and the LTIP for Executive Directors and senior management to incentivise and motivate the team. Notice periods are in place for key employees. PHP continues to outsource a PHP HR professional that has historically looked after the Nexus employees and has familiarity with contracts and procedures in place.	**Medium** The Remuneration Committee has reviewed and updated policies to ensure retention and motivation of the management team.
Responsible business Due to the far greater scrutiny by regulators, debt providers and investors over the last twelve months, should this rate continue there is a risk we do not meet their	**High** Likelihood is high and impact of occurrence could be major.	New	All debt and equity investors now prioritise ESG as a standard agenda item, with a notable increase in its occurrence noted during the year, and is expected to continue. There is a risk that we may not meet the hurdles sought by debt and equity investors should PHP not focus enough on these ESG agenda items, potentially	Over the last 18 months PHP has focused on its ESG credentials, implementing and putting in place the following to ensure we continue to meet investor expectations: Put in place an ESG policy, set up an ESG Committee that reviews the ESG Risk Dashboard, as well as employed a new ESG Director as part of its management team. Engaged external experts GRESB and Carbon Trust to review our current ESG	**Low** The Group is committed to meeting its obligations in line with its Responsible Business Framework and feels it has introduced sufficient mitigants to continue to deliver its objectives.

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
criteria in the short term.			impacting the funding of the business significantly. Additionally, political and regulatory changes to the energy efficiency and net carbon neutral targets of corporates are expected to be mandated in the short term, notably in light of COP26.	agenda and appropriateness for a listed REIT. Sustainability targets and hurdles are monitored to ensure acquired assets or asset management schemes meet specific ESG criteria, with these same criteria aligned to investors and debt providers. Constant communication with debt and equity providers, resulting in £300 million of sustainability linked financing for the two debt refinances in the year. Community Impact Fund introduced in the year. EPC rating benchmarks are set to ensure compliance with Minimum Energy Efficiency Standards (''MEES'') that could otherwise impact the quality and desirability of our assets leading to higher voids, lost income and reduced liquidity; we consider environmental and climate change risk relating to our assets and commission reports. We work with our occupiers to improve the resilience of our assets to climate change as well as with contractors who are required to conform to our responsible	

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
				development requirements.	
Diversified, long term funding					
Debt financing Without appropriate confirmed debt facilities, PHP may be unable to meet current and future commitments or repay or refinance debt facilities as they become due.	**Medium** The likelihood of insufficient facilities is moderate but the impact of such an event would be serious.	Unchanged	Negotiations with lenders have confirmed that the Group enjoys the confidence of the lending markets both in terms of the traditional high street lenders and the bond markets. The Company successfully completed two debt refinances during the year, entering into one new revolving credit facility of £100 million with NatWest, as well as refinancing £200 million of legacy debt with Aviva. The Company entered into a new £50 million revolving credit facility with Santander and €75 million Euro private placement immediately post year end.	Existing lenders remain keen to finance PHP and new entrants to debt capital markets have increased available resource. Management regularly monitors the composition of the Group's debt portfolio to ensure compliance with covenants and continued availability of funds. Management regularly reports to the Board on current debt positions and provides projections of future covenant compliance to ensure early warning of any possible issues.	**Medium** The Board regularly monitors the facilities available to the Group and looks to refinance in advance of any maturity. The Group is subject to the changing conditions of debt capital markets.
Interest rates Adverse movement in underlying interest rates could adversely affect the Group's	**Medium** The likelihood of volatility in interest rate markets is high and the	Unchanged	Term interest rate markets remained volatile during the period and this volatility is likely to continue in the near future. Over the year, term interest rates have	The Group holds a proportion of its debt in long term, fixed rate loans and mitigates its exposure to interest rate movements on floating rate facilities through the use of interest rate swaps.	**Low** The Group is currently well protected against the risk of interest rate rises but, due to its continued investment in new properties and the need to maintain

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
earnings and cash flows and could impact property valuations.	potential impact if not managed adequately could be major.		reduced which has impacted the MtM valuations of the Group's debt. In October 2021 the Group entered into £200 million of interest rate hedges, swapping fixed rate for three-month floating rate for a three-year period, as well as mitigating downside risk by capping variable exposure.	As at the balance sheet date 100% of drawn debt is fixed or hedged. MtM valuation movements do not impact on the Group's cash flows and are not included in any covenant test in the Group's debt facilities.	available facilities, will be exposed to future interest rate levels.
Deliver progressive returns					
Potential over-reliance on the NHS and HSE PHP invests in a niche asset sector where changes in healthcare policy, the funding of primary care, economic conditions and the availability of finance may adversely affect the Group's portfolio valuation and performance.	**Medium** Likelihood is low but impact of occurrence may be major.	Unchanged	The UK and Irish Governments continue to be committed to the development of primary care services and initiatives to develop new models of care increasingly focusing on greater utilisation of primary care. Despite the UK's exit from the European Union and COVID-19 pandemic, we expect the demand for health services will continue to grow, driven by demographics. However, future government funding levels in the UK and Ireland may be impacted by any long	The commitment to primary care is a stated objective of both the UK and Irish Governments and on a cross-party basis. Management engages directly with government and healthcare providers in both the UK and Ireland to promote the need for continued investment in modern premises. This continued investment provides attractive long term, secure income streams that characterise the sector leads to stability of values.	**Medium** Policy risk and general economic conditions are out of the control of the Board, but pro-active measures are taken to monitor developments and to consider their possible implications for the Group.

Risk	Inherent risk rating	Change to risk in 2021	Commentary on risk in the year	Mitigation	Residual risk rating
			term, material change to economic performance. A fundamental change in government policy could impact how the private sector regards its investment in this asset class and its willingness to further deploy private sector resources to improve the quality of primary care facilities.		
Foreign exchange risk Income and expenditure that will be derived from PHP's investments in Ireland will be denominated in Euros and may be affected unfavourably by fluctuations in currency rates, impacting the Group's earnings and portfolio valuation.	**Medium** Likelihood of volatility high but the potential impact at present is relatively low due to quantum of investment in Ireland, albeit this is increasing.	Unchanged	The Group now has 20 investments in Ireland. Asset values, funding and net income are denominated in Euros. The continued impact of COVID-19 throughout the European Union continues to cause exchange rate volatility.	The Board has funded and will continue to fund its investments in Ireland with Euros so as to create a natural hedge between asset values and liabilities in Ireland. Management closely monitors the Euro to GBP currency rates with its banks to formulate a formal hedging strategy against Irish net cash flows.	**Low** PHP has implemented a hedging strategy in the form of a natural hedge so as to manage exchange rate risk.

Viability Statement

In accordance with the 2018 UK Corporate Governance Code, the Board has assessed the prospects of the Group over the longer term, taking account of the Group's current position, business strategy, principal risks and outlook.

The Board believes the Company has strong long term prospects, being well positioned to address the need for better primary care health centres in the UK and Ireland.

Emerging risks

In completing this assessment the Board continues to monitor emerging risks and their potential impact on the Group. Development delivery risk was added to the Risk Register during 2020, and continues to be monitored, however the Board still believe the current exposure to this risk is not yet considered a principal risk and is therefore not included in the table above.

The Board also considered, at its annual strategy day, emerging risks affecting the current primary care delivery model, in particular the impact of digital technologies. As part of the outcome of the Board's evaluation process it was agreed to include a formal emerging risk review in conjunction with the annual strategy review.

With respect to Brexit, the Board continues to monitor the situation but, as disclosed in the Annual Report, does not consider Brexit, in itself, to constitute a significant risk to the business. With respect to COVID-19, whilst the Board also continues to monitor the situation, it no longer feels that it in itself constitutes a significant risk to the business, and so it has been removed from the principal risks.

Viability statement

The Directors confirm that, as part of their strategic planning and risk management processes, they have undertaken an assessment of the viability of the Group, considering the current position and the potential impact of the principal risks and prospects over a three-year time horizon. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2024. Although individually the Group's assets may have relatively long unexpired lease terms and will all have a defined asset management strategy, the Board has undertaken its detailed financial review over a three-year period because:

- the Group's financial review and budgetary processes cover a three-year look forward period; and
- occupational leases within the Group's property portfolio typically have a three-yearly rent review pattern and so modelling over this period allows the Group's financial projections to include a full cycle of reversion, arising from open market, fixed and index-linked rent reviews.

The Group's financial review and budgetary processes are based on an integrated model that projects performance, cash flows, position and other key performance indicators including earnings per share, leverage rates, net asset values per share and REIT compliance over the review period. In addition, the forecast model looks at the funding of the Group's activities and its compliance with the financial covenant requirements of its debt facilities. The model uses a number of key parameters in generating its forecasts that reflect the Group's strategy and operating processes and the Board's expectation of market developments in the review period. In undertaking its financial review, these parameters have been flexed to reflect severe, but realistic, scenarios both individually and collectively. Sensitivities applied are derived from the principal risks faced by the Group that could affect solvency or liquidity and are as follows:

- declining attractiveness of the Group's assets or extenuating economic circumstances impact investment values – valuation parameter stress tested to provide for a one-off 10% / £283 million fall in June 2022;

- 15% tenant default rate;
- rental growth assumptions amended to see nil uplifts on open market reviews;
- variable rate interest rates rise by an immediate 2% effective from 1 January 2022; and
- tightly controlled NHS scheme approval restricts investment opportunity – investment quantum flexed to remove non-committed transactions.

We have assessed the impact of these assumptions on the Group's key financial metrics over the assessment period including profitability, net debt, loan to value ratios and available financial headroom which are as follows:

Key metrics 31 December 2024	31 December 2021	Viability scenario
Loan to value ratio	42.9%	49.2%
Net debt	£1,200m	£1,343m
Adjusted net assets	£1,557m	£1,337m
Available financial headroom*	£321m	£203m

*The above analysis takes into account the two debt facilities completed immediately post year end.

In making its assessment, the Board has made a number of specific assumptions that overlay the financial parameters used in the Group's models. The Board has assumed that, in addition to the specific impact of new debt facilities, the Group will be able to refinance or replace other debt facilities that mature within the review period in advance of their maturity and on terms similar to those at present.

Harry Hyman
Chief Executive Officer
15 February 2022

Group statement of comprehensive income
for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Rental income		**145.6**	139.0
Direct property expenses		**(8.9)**	(7.8)
Net rental income	3	**136.7**	131.2
Administrative expenses	4	**(10.5)**	(13.2)
Revaluation gain on property portfolio	11	**110.2**	51.3
Profit on sale of land and property	11	**0.3**	0.1
Total revaluation gain		**110.5**	51.4
Operating profit		**236.7**	169.4
Finance income	5	**0.8**	1.2
Finance costs	6a	**(35.9)**	(43.0)
Exceptional early loan redemption finance cost	6a	**(24.6)**	—
Termination payment and goodwill impairment on acquisition of Nexus	7	**(35.3)**	—
Exceptional Nexus acquisition costs	7	**(1.7)**	—
Fair value loss on derivative interest rate swaps and amortisation of hedging reserve	6b	**(1.8)**	(12.9)
Fair value gain/(loss) on convertible bond	6c	**3.4**	(2.3)
Profit before taxation		**141.6**	112.4
Taxation charge	8	**(1.5)**	(0.4)
Profit after taxation[1]		**140.1**	112.0
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss			
Fair value gain on interest rate swaps treated as cash flow hedges and amortisation of hedging reserve	23	**4.5**	4.0
Exchange (loss)/gain on translation of foreign balances		**(3.4)**	2.2
Other comprehensive income net of tax[1]		**1.1**	6.2
Total comprehensive income net of tax[1]		**141.2**	118.2
IFRS earnings per share			
Basic	9	**10.5p**	8.8p
Diluted	9	**9.8p**	8.7p
Adjusted earnings per share[2]			
Basic	9	**6.2p**	5.8p
Diluted	9	**6.1p**	5.7p

1 Wholly attributable to equity shareholders of Primary Health Properties PLC.
2 See Glossary of Terms.

The above relates wholly to continuing operations.

Group balance sheet
at 31 December 2021

	Notes	**2021 £m**	2020 £m
Non-current assets			
Investment properties	11	**2,795.9**	2,576.1
Derivative interest rate swaps	17	**5.2**	—
Fixed assets		**0.3**	—
		2,801.4	2,576.1
Current assets			
Trade and other receivables	12	**17.6**	17.4
Cash and cash equivalents	13	**33.4**	103.6
Developments work in progress		**0.7**	—
		51.7	121.0
Total assets		**2,853.1**	2,697.1
Current liabilities			
Deferred rental income		**(28.3)**	(27.0)
Trade and other payables	14	**(40.0)**	(34.7)
Borrowings: term loans and overdraft	15a	**(2.2)**	(6.4)
		(70.5)	(68.1)
Non-current liabilities			
Borrowings: term loans and overdraft	15a	**(700.2)**	(623.6)
Borrowings: bonds	15b	**(572.8)**	(582.9)
Derivative interest rate swaps	17	**(0.8)**	(0.1)
Head lease liabilities	16	**(4.5)**	(4.5)
Deferred tax liability		**(4.4)**	(3.5)
		(1,282.7)	(1,214.6)
Total liabilities		**(1,353.2)**	(1,282.7)
Net assets		**1,499.9**	1,414.4
Equity			
Share capital	19	**166.6**	164.4
Share premium account	20	**474.9**	466.7
Merger and other reserves	21	**413.5**	400.8
Special reserve	22	**—**	—
Hedging reserve	23	**(15.6)**	(20.1)
Retained earnings	24	**460.5**	402.6
Total equity[1]		**1,499.9**	1,414.4
Net asset value per share			
IFRS net assets – basic and diluted	9	**112.5p**	107.5p
Adjusted net tangible assets[2] – basic	9	**116.7p**	112.9p
Adjusted net tangible assets[2] – diluted	9	**118.6p**	115.4p

1 Wholly attributable to equity shareholders of Primary Health Properties PLC.
2 See Glossary of Terms.

These financial statements were approved by the Board of Directors on 15 February 2022 and signed on its behalf by:

Richard Howell
Chief Financial Officer

Registered in England Number: 3033634

Group cash flow statement
for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Operating activities			
Profit on ordinary activities after tax		**140.1**	112.0
Taxation charge	8	**1.5**	0.4
Finance income	5	**(0.8)**	(1.9)
Finance costs	6a	**35.9**	43.7
Exceptional early loan redemption finance cost	6a	**24.6**	—
Termination payment and goodwill impairment on acquisition of Nexus	7	**35.3**	—
Exceptional Nexus acquisition costs	7	**1.7**	—
Fair value loss on derivatives	6b	**1.8**	12.9
Fair value loss on convertible bond	6c	**(3.4)**	2.3
Operating profit before financing costs		**236.7**	169.4
Adjustments to reconcile Group operating profit before financing to net cash flows from operating activities:			
Revaluation gain on property portfolio	11	**(110.2)**	(51.3)
Profit on sale of land and property	11	**(0.3)**	(0.1)
Long term incentive plan ("LTIP")		**0.2**	—
Effect of exchange rate fluctuations on operations		**—**	(0.3)
Fixed rent uplift		**(1.2)**	(1.5)
Tax paid		**(0.4)**	(0.2)
(Increase) in trade and other receivables		**(0.3)**	(1.3)
Increase in trade and other payables		**15.9**	4.2
Cash generated from operations		**140.4**	118.9
Net cash flow from operating activities		**140.4**	118.9
Investing activities			
Payments to acquire and improve investment properties		**(129.6)**	(102.9)
Receipts from disposal of properties		**0.3**	0.1
Cash paid for acquisition of Nexus, including fees	7	**(18.2)**	—
Cash acquired as part of merger	7	**0.4**	
Interest received on development loans		**0.7**	1.9
Net cash flow used in investing activities		**(146.4)**	(100.9)
Financing activities			
Proceeds from issue of shares		—	140.0
Cost of share issues		**(0.1)**	(3.2)
Term bank loan drawdowns	15	**335.6**	17.8
Term bank loan repayments	15	**(252.8)**	(76.2)
Loan arrangement fees		**(2.7)**	(2.0)
Termination of derivative financial instruments		**(1.9)**	(21.8)
Exceptional early loan redemption finance cost	6a	**(24.6)**	—
Swap interest paid		**—**	(0.1)
Non-utilisation fees		**(1.8)**	(1.9)
Interest paid		**(40.9)**	(42.0)
Bank interest received		**—**	0.4
Equity dividends paid net of scrip dividend	10	**(74.4)**	(69.1)
Net cash flow from financing activities		**(63.6)**	(58.1)
(Decrease) in cash and cash equivalents for the year		**(69.6)**	(40.1)
Effect of exchange rate fluctuations on Euro-denominated loans and cash equivalents		**(0.6)**	0.6
Cash and cash equivalents at start of year		**103.6**	143.1
Cash and cash equivalents at end of year	13	**33.4**	103.6

Group statement of changes in equity for the year ended 31 December 2021

	Share capital £m	Share premium £m	Merger and other reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2021	164.4	466.7	400.8	—	(20.1)	402.6	1,414.4
Profit for the year	—	—	—	—	—	140.1	140.1
Other comprehensive income							
Amortisation of hedging reserve	—	—	—	—	4.5	—	4.5
Exchange gain on translation of foreign balances	—	—	(3.4)	—	—	—	(3.4)
Total comprehensive income	—	—	(3.4)	—	4.5	140.1	141.2
Shares issued on acquisition of Nexus	1.5	—	16.1	—	—	—	17.6
Shares issued for other acquisitions	0.1	0.9	—	—	—	—	1.0
Share issue expenses	—	(0.1)	—	—	—	—	(0.1)
Share-based awards (“LTIP”)	—	—	—	—	—	0.2	0.2
Dividends paid	—	—	—	—	—	(74.4)	(74.4)
Scrip dividend in lieu of cash	0.6	7.4	—	—	—	(8.0)	—
31 December 2021	**166.6**	**474.9**	**413.5**	**—**	**(15.6)**	**460.5**	**1,499.9**

	Share capital £m	Share premium £m	Merger and other reserve £m	Special reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
1 January 2020	152.0	338.1	398.6	65.4	(24.1)	298.5	1,228.5
Profit for the year	—	—	—	—	—	112.0	112.0
Other comprehensive income							
Fair value movement on interest rate swaps	—	—	—	—	—	—	—
Reclassification to profit and loss – amortisation of hedging reserve	—	—	—	—	4.0	—	4.0
Exchange loss on translation of foreign balances	—	—	2.2	—	—	—	2.2
Total comprehensive income	—	—	2.2	—	4.0	112.0	118.2
Shares issued on conversion of convertible bonds	—	—	—	—	—	—	—
Shares issued as part of capital raise	12.1	127.9	—	—	—	—	140.0
Share issue expenses	—	(3.2)	—	—	—	—	(3.2)
Dividends paid	—	—	—	(61.2)	—	(7.9)	(69.1)
Scrip dividend in lieu of cash	0.3	3.9	—	(4.2)	—	—	—
31 December 2020	164.4	466.7	400.8	—	(20.1)	402.6	1,414.4

Notes to the financial statements

1. Corporate information

The Group's financial statements for the year ended 31 December 2021 were approved by the Board of Directors on 15 February 2022 and the Group Balance Sheet was signed on the Board's behalf by the Chairman, Steven Owen. Primary Health Properties PLC is a public limited company incorporated in England and Wales and domiciled in the United Kingdom. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority, a division of the Financial Conduct Authority, and traded on the London Stock Exchange.

2. Accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared on the historical cost basis, except for investment properties, including investment properties under construction and land and derivative financial instruments that have been measured at fair value. The Group's financial statements are prepared on the going concern basis (see page 102 of the Annual Report for further details) and presented in Sterling rounded to the nearest million.

Statement of compliance

The consolidated financial statements for the Group have been prepared under International Financial Reporting Standards ("IFRSs") as adopted by the United Kingdom and applied in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

2.2 Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for the Group as of 1 January 2021.

First time application of IFRS 2 Share-based payments

The Group has applied IFRS 2, which had not been applicable in prior years, for the first time in the current year. The standard requires an entity to recognise share-based payment transactions (such as granted shares, share options, or share appreciation rights) in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

2.3 Summary of significant accounting policies

Basis of consolidation

The Group's financial statements consolidate the financial statements of Primary Health Properties PLC and its wholly owned subsidiary undertakings. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; through currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of the subsidiary undertakings are prepared for the accounting reference period ending 31 December each year using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated on consolidation.

The individual financial statements of Primary Health Properties PLC and each of its subsidiary undertakings will be prepared under FRS 101. The use of IFRSs at Group level does not affect the distributable reserves available to the Group.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment property in the United Kingdom and Ireland leased principally to GPs, government healthcare organisations and other associated healthcare users.

Foreign currency transactions

Each Group company presents its individual financial statements in its functional currency. The functional currency of all UK subsidiaries (with the exception of PHP Euro Private Placement Limited and MXF Properties Ireland Limited which are Euro) is Sterling and the functional currency of Primary Health Properties ICAV and its Irish domiciled subsidiaries is Euro.

Transactions in currencies other than an individual entity's functional currency (foreign currencies) are recognised at the applicable exchange rate ruling on the transaction date. Exchange differences resulting from settling these transactions, or from retranslating monetary assets and liabilities denominated in foreign currencies, are included in the Group Statement of Comprehensive Income.

Foreign operations

In preparing the Group's consolidated financial statements, the assets and liabilities of foreign entities are translated into Sterling at exchange rates prevailing on the balance sheet date. The income, expenses and cash flows of a foreign entity are translated at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used.

The exchange rates used to translate foreign currency amounts in 2021 are as follows:

- Group Balance Sheet: £1 = €1.1893 (2020: €1.1185).
- Group Statement of Comprehensive Income: £1 = €1.1778 (2020: €1.105).

Investment properties and investment properties under construction

The Group's investment properties are held for long term investment. Investment properties and those under construction are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties and investment properties under construction are stated at fair value based on market data and a professional valuation made as of each reporting date. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect future benefits from this future expenditure.

Gains or losses arising from changes in the fair value of investment properties and investment properties under construction are included in the Group Statement of Comprehensive Income in the year in which they arise.

Investment properties are recognised on acquisition upon completion of contract, which is when control of the asset passes to the Group. Investment properties cease to be recognised when control of the property passes to the purchaser, which is upon completion of the sales contract. Any gains and losses arising are recognised in the Group Statement of Comprehensive Income in the year of disposal.

All costs associated with the purchase and construction of investment properties under construction are capitalised including attributable interest and staff costs. Interest is calculated on the expenditure by reference to the average rate of interest on the Group's borrowings. When properties under construction are completed the capitalisation of costs ceases and they are reclassified as investment properties.

The Group may enter into a forward funding agreement with third-party developers in respect of certain properties under development. In accordance with these agreements, the Group will make monthly stage payments to the developer based on certified works on site at that time. Interest is charged to the developer on all stage payments made during the construction period and on the cost of the land acquired by the Group at the outset of the development and taken to the Group Statement of Comprehensive Income in the year in which it accrues.

Property acquisitions and business combinations

Where a property is acquired through the acquisition of corporate interests, the Board considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 2.4(b).

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values on the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Where any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities is acquired, goodwill is recognised. This is recognised as an asset and is reviewed for impairment immediately, and then at least annually. Any impairment is recognised immediately in the income statement.

Gains on sale of properties

Gains on sale of properties are recognised on the completion of the contract, and are calculated by reference to the carrying value at the end of the previous reporting period, adjusted for subsequent capital expenditure and sale costs.

Net rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. Such adjustments are accrued at 100% (2020: 100%) of the additional rental income that is expected to result from the review. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Net rental income is the rental income receivable in the period after payment of direct property costs.

Interest income

Revenue is recognised as interest accrues, using the effective interest method (that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Financial instruments under IFRS 9

Trade receivables

Trade receivables are recognised and carried at amortised cost as the Group's business model is to collect the contractual cash flows due from tenants. Provision is made based on the expected credit loss model which reflects the Group's historical credit loss experience over the past three years but also reflects the lifetime expected credit loss.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short term deposits, including any bank overdrafts, with an original maturity of three months or less, measured at amortised cost.

Trade and other payables

Trade payables are recognised and carried at their invoiced value inclusive of any VAT that may be applicable.

Bank loans and borrowings

All loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method.

The interest due within the next twelve months is accrued at the end of the year and presented as a current liability within trade and other payables.

Borrowing costs

Borrowing costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs the Group incurs in connection with the borrowing of funds.

Convertible bond

The convertible bond is designated as "at fair value through profit or loss" and so is presented on the Group Balance Sheet at fair value with all gains and losses, including the write-off of issuance costs, recognised in the Group Statement of Comprehensive Income. The fair value of the convertible bond is assessed in accordance with level 1 valuation techniques as set out within "Fair value measurements" within these accounting policies. The interest charge in respect of the coupon rate on the bond has been recognised within the underlying component of net financing costs on an accruals basis. Refer to Note 15b for further details. The amount of the change in fair value of the financial liability designated at fair value through profit or loss that is attributable to changes in credit risk will be recognised in other comprehensive income.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- when the cash flows are significantly modified.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

When the exchange or modification of an existing financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the liability's carrying amount and are amortised over the modified liability's remaining term and any difference in the carrying amount after modification is recognised as a modification gain or loss.

Tax

Taxation on the profit or loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Taxation is recognised in the Group Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Fair value measurements

The Group measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques at three levels that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Hedge accounting

At the inception of a transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at inception and on an ongoing basis.

For cash flow hedging, the Group monitors the hedging instrument to check it continues to meet the criteria of IAS 39, having applied the practical expedient on transition, for being described as "highly effective" in offsetting changes in the fair values or cash flows of hedged items.

For net investment hedge relationships, the Group monitors the hedging instrument to check it continues to meet the criteria of IAS 39 for being described as "highly effective".

i) Derivative financial instruments ("derivatives")

The Group uses interest rate swaps to help manage its interest rate risk.

All interest rate derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently remeasured at fair value. The fair values of the Group's interest rate swaps are calculated by Chatham (formally JCRA), an independent specialist which provides treasury management services to the Group.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument:

- Where a derivative is designated as a hedge of the variability of a highly probable forecast transaction, such as an interest payment, the element of the gain or loss on the derivative that is an "effective" hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in the cash flow hedging reserve are reclassified into the Group Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Group Statement of Comprehensive Income, i.e. when interest income or expense is recognised.
- The gain or loss on derivatives that do not meet the strict criteria for being "effective" and so do not qualify for hedge accounting and the non-qualifying element of derivatives that do qualify for hedge accounting are recognised in the Group Statement of Comprehensive Income immediately. The treatment does not alter the fact that the derivatives are economic hedges of the underlying transaction.

For swaps that have been cancelled which previously qualified for hedge accounting, the remaining value within the cash flow hedging reserve at the date of cancellation is recycled to the Group Statement of Comprehensive Income on a straight line basis from the date of cancellation to the original swap expiry date where the hedged transaction is still expected to occur. If the swaps have been cancelled and the hedged transaction is no longer expected to occur, the amount accumulated in the hedging reserve is reclassified to profit and loss immediately.

Leases – Group as a lessor

The vast majority of the Group's properties are leased out under operating leases and are included within investment properties. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. Finance income is recognised in the Group Statement of Comprehensive Income so as to achieve a constant rate of return on the remaining net investment in the lease. Interest income on finance leases is restricted to the amount of interest actually received.

Employee costs

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are charged to the income statement as incurred.

Share-based employee remuneration

The fair value of equity-settled share-based payments to employees is determined with reference to the fair value of the equity instruments at the date of grant and is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares or options that will eventually vest. The fair value of awards is equal to the market value at grant date.

Capitalised salaries

Certain internal staff and associated costs directly attributable to the management of major projects are capitalised. Internal staff costs are capitalised from the start of the project until the date of practical completion.

2.4 Significant accounting estimates and judgements

The preparation of the Group financial statements requires management to make a number of estimates and judgements that affect the reported amounts of assets and liabilities and may differ from future actual results. The estimates and judgements that are considered most critical and that have a significant inherent risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

a) Estimates

Fair value of investment properties

Investment properties include: (i) completed investment properties; and (ii) investment properties under construction. Completed investment properties comprise real estate held by the Group or leased by the Group under a finance lease in order to earn rental income or for capital appreciation, or both.

The fair market value of a property is deemed by the independent property valuer appointed by the Group to be the estimated amount for which a property should exchange, on the date of valuation, in an arm's length transaction. Properties have been valued on an individual basis, assuming that they will be sold individually over time. Allowances are made to reflect the purchaser's costs of professional fees and stamp duty and tax.

In accordance with RICS Appraisal and Valuation Standards, factors taken into account are current market conditions, annual rentals, state of repair, ground stability, contamination issues and fire and health and safety legislation. Refer to Note 11 of the financial statements which includes further information on the fair value assumptions and sensitivities.

In determining the fair value of investment properties under construction the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. The valuer takes into account any pre-lets and whether construction risk remains with the respective developer or contractor.

Fair value of derivatives

In accordance with IFRS 9, the Group values its derivative financial instruments at fair value. Fair value is estimated by Chatham (formerly JCRA) on behalf of the Group, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid-price of the yield curve prevailing on 31 December 2021. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. Refer to Note 17 of the financial statements.

b) Judgements

Hedge effectiveness

The Group has a number of interest rate swaps that mature after the Group's bank facilities, to which they relate, are due to expire. In accordance with IAS 39, in order to apply hedge accounting in relation to these interest rate swaps, the Group has determined that it is highly probable that these bank facilities will be renegotiated on or before expiry and that variable interest rate debt finance will be in place until the expiry date of the swaps.

The Group is exposed to foreign exchange rate movements due to operations in Ireland. In accordance with IAS 39, in order to apply hedge accounting with the Euro-denominated cash flows, the Group has determined that it is highly probably that there will be corresponding Euro bank drawdowns and that these will be renegotiated on or before expiry.

Property acquisitions during the year

The Directors have reviewed the acquisitions during the year on an individual basis in accordance with the requirements of IFRS 3(R). Where corporate entities were acquired through special purpose vehicles for holding properties rather than separate business entities, these were accounted for as asset acquisitions. Where business processes inherent in the entities were acquired, these were accounted for as a business combination.

2.5 Standards issued but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the UK:

- Amendments to IAS 1 Classification of liabilities as current or non-current.
- IAS 8 Definition of accounting estimates.
- IFRS 3 Reference to the conceptual framework.
- Annual improvements to IFRS standards 2018–2020.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2022, but are not yet applicable to the Group and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

3. Rental and related income

Revenue comprises rental income receivable on property investments in the UK and Ireland, which is exclusive of VAT. Revenue is derived from one reportable operating segment and £134.7 million and £10.9 million of rental income is derived from the UK and Ireland respectively. Details of the lease income are given below.

Group as a lessor

a) The future minimum lease payments under non-cancellable operating leases receivable by the Group are as follows:

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m

2021	**138.6**	**136.1**	**130.8**	**126.3**	**121.0**	**859.1**	**1,511.9**
2020	134.4	133.6	131.2	126.0	121.3	935.5	1,582.0

b) The rental income earned on operating leases is recognised on a straight line basis over the lease term.

The Group leases medical centres to GPs, NHS organisations, the HSE in Ireland and other healthcare users, typically on long term occupational leases which provide for regular reviews of rent on an effectively upwards-only basis.

4. Group operating profit is stated after charging:

	2021 **£m**	2020 £m
Administrative expenses including:		
Advisory fees (Note 4a)	**0.1**	9.1
Staff costs (Note 4b)	**5.2**	—
Performance Incentive Fees (Note 4c)	**1.0**	1.6
Directors' fees	**0.4**	0.4
Audit fees		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**0.4**	0.3
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**0.1**	0.1
Total audit fees	**0.5**	0.4
Total audit and assurance services	**0.5**	0.4
Non-audit fees		
Fees payable to the Company's auditor and its associates for the interim review	**0.1**	0.1
Advisory services	**—**	—
Total non-audit fees	**0.1**	0.1
Total fees	**0.6**	0.5

a) Advisory fees

On 5 January 2021 the Group completed the acquisition of Nexus and internalised the management arrangements and consequently payments ceased at this date with no further amounts payable in relation to advisory fees to Nexus.

The advisory fees calculated and payable for the period to 31 December are as follows:

	2021 **£m**	2020 £m
Nexus Tradeco Limited ("Nexus")	**0.1**	9.1

As at 31 December 2021 £nil was payable to Nexus (2020: £0.8 million).

There were no other fees paid to Nexus during the year in respect of capital projects and service charge management fees (2020: £0.4 million and £0.4 million respectively).

The Group shares certain operational services with Nexus. Amounts paid during the year in relation to these shared services totalled £0.1 million, and amounts received during the year totalled £0.2 million.

Refer to Note 7 for further information on the Nexus acquisition.

b) Staff costs

	2021 £m	2020 £m
Wages and salaries	**5.6**	—
Less staff costs capitalised in respect of development and asset management projects	**(1.3)**	—
Social security costs	**0.5**	—
Pension costs	**0.1**	—
Equity-settled share-based payments	**0.3**	—
	5.2	—

The Group operates a defined contribution pension scheme for all employees. The Group contribution to the scheme during the year was £0.1 million (2020: £nil), which represents the total expense recognised through the income statement. As at 31 December 2021, there were no contributions (2020: £nil) due in respect of the reporting period that had not been paid over to the plan.

The average monthly number of Group employees during the year was 59 (2020: nil), and as at 31 December 2021 was 62 (2020: nil).

The Executive Directors and Non-executive Directors are the key management personnel. Full disclosure of Directors' emoluments, as required by the Companies Act 2006, can be found in the Remuneration Report in the Annual Report.

The Group's equity-settled share-based payments comprise the following:

Scheme	**Fair value measure**
Long Term Incentive Plan ("LTIP")	Face value at grant date
Save As You Earn ("SAYE")	Face value at grant date

The Group expenses an estimate of how many shares are likely to vest based on the market price at the date of grant, taking account of expected performance against the relevant performance targets and service periods, which are discussed in further detail in the Remuneration Report.

c) Performance Incentive Fee ("PIF")

Information about the Performance Incentive Fee is provided in the Corporate Governance section of the Strategic Review in the Annual Report.

A PIF of £1.4 million was paid in the period in respect of 2020 and at 31 December 2021 the balance on the notional cumulative PIF account was £9.2 million (2020: £8.1 million), of which £1.3 million (2020: £1.5 million) will become payable on approval of the Annual Report by the Board. The balance is conditional on performance in future years and the restrictions noted in the Financial Review on pages 23 to 27.

5. Finance income

	2021 £m	2020 £m
Interest income on financial assets		
Bank interest	**—**	0.4
Development loan interest	**0.8**	0.8
	0.8	1.2

6. Finance costs

	2021 £m	2020 £m
Interest expense and similar charges on financial liabilities		
a) Interest		
Bank loan interest	**24.0**	26.1
Swap interest	**(0.3)**	0.1
Bond interest	**15.5**	16.0
Bank facility non-utilisation fees	**1.9**	1.9
Exceptional early loan redemption finance cost	**24.6**	—
Bank charges and loan arrangement fees	**2.7**	2.7
	68.4	46.8
Interest capitalised	**—**	(0.7)
	68.4	46.1
Amortisation of MedicX debt MtM on acquisition	**(7.9)**	(3.1)
	60.5	43.0

The exceptional early loan redemption finance cost was an amount paid in the year to terminate the Aviva facilities. The weighted average interest rate on the loans redeemed was 4.99% with associated early repayment costs of £24.6 million.

	2021 £m	2020 £m
b) Derivatives		
Net fair value gain/(loss) on interest rate swaps	**2.7**	(8.5)
Amortisation of cash flow hedging reserve	**(4.5)**	(4.4)
	(1.8)	(12.9)

The fair value loss on derivatives recognised in the Group Statement of Comprehensive Income has arisen from the interest rate swaps for which hedge accounting does not apply. There was no fair value gain or loss accounted for directly in equity on derivatives which do meet the hedge effectiveness criteria under IAS 39 (2020: loss of £0.4 million). An amount of £4.5 million (2020: £4.4 million) has been amortised from the cash flow hedging reserve in the year resulting from early termination of effective swap contracts (see Note 23).

Details of the fair value loss on hedges which meet the effectiveness criteria for hedge accounting under IAS 39 are set out in Note 23.

	2021 £m	2020 £m
c) Convertible bond		
Fair value loss on convertible bond fully redeemed in the year	**—**	—
Fair value loss on convertible bond issued in the year	**—**	—
Fair value gain/(loss) on existing convertible bond	**3.4**	(2.3)
Convertible bond issue costs	**—**	—
	3.4	(2.3)

The fair value movement in the convertible bonds is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NTA (replacing EPRA NAV). Refer to Note 15 for further details about the convertible bonds.

	2021 £m	2020 £m
Net finance costs		
Finance income (Note 5)	**0.8**	1.2
Finance costs (as per above)	**(68.4)**	(46.8)
	(67.6)	(45.6)
Interest capitalised	**—**	0.7
	(67.6)	(44.9)
Amortisation of MedicX debt MtM on acquisition	**7.9**	3.1
	(59.7)	(41.8)

7. Business combination

On 5 January 2021 the Group's management function was internalised by acquiring PHP Tradeco Holdings Limited (formerly Nexus Tradeco Holdings Limited), which is the holding company of its long-standing external property adviser, PHP Tradeco Limited (formerly Nexus Tradeco Limited), and certain subsidiaries, including the primary care development business ("Nexus"). Primary Health Properties PLC acquired the entire issued ordinary share capital of PHP Tradeco Holdings Limited at a total cost of £34.1 million, including a termination payment of £29.0 million.

The total cost was met by £16.5 million payment in cash, and £17.6 million satisfied by the issue of 11,485,080 new Ordinary Shares of 12.5 pence each in the share capital of PHP at the quoted market price on completion of 152.8 pence per share.

The acquisition of PHP Tradeco Holdings Limited for a total fair value of consideration of £5.1 million resulted in the transfer of certain assets and liabilities and the fair value of the net liabilities acquired was £1.2 million, resulting in a goodwill on acquisition of £6.3 million.

The acquisition resulted in the termination of the advisory agreement. The total cost of terminating the Nexus agreement and goodwill on acquisition has been calculated to be £35.3 million (fair value of consideration paid £34.1 million plus fair value of net liabilities acquired £1.2 million) when taking into account the consideration and the net assets with fair value adjustments. The goodwill on acquisition of £35.3 million was to effect the termination of the management agreement with Nexus and reflects the termination notice period, approximately 2 years and 2.5 months under the management agreement totalling £29.0 million. The remaining £6.3 million represents a discretionary payment on account of the acquisition of principally the management team, assembled workforce, systems, operational platform and know-how which were "re-branded" from Nexus to PHP.

	Book value £m	Adjustments to fair value £m	Total fair value £m
Cash consideration	16.5	—	16.5
Equity instruments	17.6	—	17.6
Total cost	**34.1**	**—**	**34.1**
Less: termination payment	—	—	(29.0)
Fair value of consideration paid	**—**	**—**	**5.1**

Fair value of net assets acquired			
Tangible fixed assets	0.1	—	0.1
Cash and cash equivalents	0.4	—	0.4
Trade and other debtors	1.2	—	1.2
Total assets	**1.7**	**—**	**1.7**
Trade creditors and other creditors	(1.4)	(1.1)	(2.5)
Amounts due to HMRC	(0.4)	—	(0.4)
Total liabilities	**(1.8)**	**(1.1)**	**(2.9)**
Fair value of net assets acquired	**(0.1)**	**(1.1)**	**(1.2)**
Termination payment and goodwill arising on acquisition			**35.3**
Net cash flow arising on acquisition			
Cash consideration			16.5
Acquisition costs			1.7
Less: cash and cash equivalent balances acquired			(0.4)
			17.8

Acquisition of the Nexus entities contributed £nil revenue and a cost saving of approximately £3.9 million to the Group's profit for the period between the date of acquisition and the reporting date. If the acquisition had completed on the first day of the financial year, the impact on Group revenues for the year would have been £nil and the impact on Group profit would have been a cost saving of approximately £4.0 million.

8. Taxation

a) Taxation charge in the Group Statement of Comprehensive Income

The taxation charge is made up as follows:

	2021	2020
	£m	£m
Current tax		
UK corporation tax	**—**	—
Irish corporation tax	**0.1**	0.1
Deferred tax on Irish activities	**1.4**	0.3
Total tax	**1.5**	0.4

The UK corporation tax rate of 19% (2020: 19%) and the Irish corporation tax rate of 20% (2020: 20%) have been applied in the measurement of the Group's UK and Ireland related activities tax liability at 31 December 2021.

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2020: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2021	2020
	£m	£m
Profit on ordinary activities before taxation	**141.6**	112.4
Theoretical tax at UK corporation tax rate of 19% (2020: 19%)	**26.9**	21.4
REIT exempt income	**(36.4)**	(25.7)
Transfer pricing adjustment	**4.7**	4.1
Termination payment and goodwill	**7.0**	—

impairment on acquisition of Nexus		
Fair value (gain)/loss on convertible bond	**(0.6)**	0.4
Non-taxable items	**(0.6)**	0.2
Losses brought forward utilised	**(0.2)**	—
Irish corporation tax	**0.7**	0.7
Deferred tax on Irish activities	—	(0.8)
Taxation charge (Note 8a)	**1.5**	0.4

The UK REIT rules exempt the profits of the Group's property rental business from corporation tax.

c) Basis of taxation

The Group elected to be treated as a UK REIT with effect from 1 January 2007. The UK REIT rules exempt the profits of the Group's property rental business from corporation tax. Gains on properties are also exempt from tax, provided they are not held for trading or sold in the three years post completion of development. The Group will otherwise be subject to corporation tax at 19% (2020: 19%).

Acquired companies are effectively converted to UK REIT status from the date on which they become a member of the Group.

As a UK REIT, the Company is required to pay Property Income Distributions ("PIDs") equal to at least 90% of the Group's rental profit calculated by reference to tax rules rather than accounting standards.

To remain as a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activities and the balance of its business. The Group remains compliant as at 31 December 2021.

The Group's activities in Ireland are conducted via Irish companies, a Guernsey company and an Irish Collective Asset Vehicle ("ICAV"). The Irish companies pay Irish corporation tax on trading activities and deferred tax is calculated on the increase in capital values. The Guernsey company pays tax on its net rental income. The ICAV does not pay any Irish corporation tax on its profits but a 20% withholding tax is paid on distributions to owners.

9. Earnings per share

Performance measures

In the tables below, we present earnings per share and net assets per share calculated in accordance with IFRSs, together with our own adjusted measure and certain measures defined by the European Public Real Estate Association ("EPRA"), which have been included to assist comparison between European property companies. Two of the Group's key financial performance measures are adjusted earnings per share and adjusted net tangible assets per share.

Adjusted earnings, which is a tax adjusted measure of revenue profit, is the basis for the calculation of adjusted earnings per share. We believe adjusted earnings and adjusted earnings per share provide further insight into the results of the Group's operational performance to stakeholders as they focus on the net rental income performance of the business and exclude capital and other items which can vary significantly from year to year.

Earnings per share

	2021			2020		
	IFRS earnings £m	**Adjusted earnings £m**	**EPRA earnings £m**	IFRS earnings £m	Adjusted earnings £m	EPRA earnings £m

Profit after taxation	**140.1**	**140.1**	**140.1**	112.0	112.0	112.0
Adjustments to remove:						
Revaluation gain on property portfolio	**—**	**(110.2)**	**(110.2)**	—	(51.3)	(51.3)
Profit on sale of land and property	**—**	**(0.3)**	**(0.3)**	—	(0.1)	(0.1)
Fair value movement on derivatives	**—**	**1.8**	**1.8**	—	12.9	12.9
Fair value movement and issue costs on convertible bond	**—**	**(3.4)**	**(3.4)**	—	2.3	2.3
Taxation charge	**—**	**1.4**	**1.4**	—	0.4	0.4
Termination payment and goodwill impairment on acquisition of Nexus	**—**	**35.3**	**6.3**	—	—	—
Exceptional Nexus acquisition costs	**—**	**1.7**	**1.7**	—	—	—
Early termination fees on bank debt		**24.6**	**24.6**	—	—	—
MtM write off on early termination of bank debt		**(4.7)**	**—**	—	—	—
Amortisation of MtM loss on debt acquired	**—**	**(3.2)**	**—**	—	(3.1)	—
Basic earnings	**140.1**	**83.1**	**91.0**	112.0	73.1	76.2
Dilutive effect of convertible bond	**0.9**	**4.3**	**4.3**	6.6	4.3	4.3
Diluted earnings	**141.0**	**87.4**	**95.3**	118.6	77.4	80.5

Number of shares

	2021 weighted average			2020 weighted average		
	million	**million**	**million**	million	million	million
Ordinary Shares	**1,330.4**	**1,330.4**	**1,330.4**	1,266.4	1,266.4	1,266.4
Dilutive effect of convertible bond	**105.4**	**105.4**	**105.4**	102.0	102.0	102.0
Diluted Ordinary Shares	**1,435.8**	**1,435.8**	**1,435.8**	1,368.4	1,368.4	1,368.4

Profit/(loss) per share attributable to shareholders:

	IFRS pence	**Adjusted pence**	**EPRA pence**	IFRS pence	Adjusted pence	EPRA pence
Basic	**10.5**	**6.2**	**4.7**	8.8	5.8	6.0
Diluted	**9.8**	**6.1**	**4.6**	8.7	5.7	5.9

Net assets per share

	31 December 2021 IFRS £m	Adjusted £m	EPRA £m	31 December 2020 IFRS £m	Adjusted £m	EPRA £m
Net assets attributable to shareholders	**1,499.9**	**1,499.9**	**1,499.9**	1,414.4	1,414.4	1,414.4
Derivative interest rate swaps liability		**(4.4)**	**(4.4)**		0.1	0.1
Deferred tax		**4.4**	**4.4**		3.5	3.5
Cumulative convertible bond fair value movement		**21.6**	**21.6**		25.0	25.0
MtM on MedicX loans net of amortisation		**34.4**	**—**		42.3	—
Net tangible assets ("NTA")		**1,555.9**	**1,521.5**		1,485.3	1,443.0
Real estate transfer taxes			**189.0**			174.7
Net reinstatement value ("NRV")			**1,710.5**			1,617.7
Fixed rate debt and swap MtM value			**(20.1)**			(88.0)
Deferred tax			**(4.4)**			(3.5)
Cumulative convertible bond fair value movement			**(21.6)**			(25.0)
Real estate transfer taxes			**(189.0)**			(174.7)
Net disposal value ("NDV")			**1,475.4**			1,326.5

Ordinary Shares

	million	**million**	**million**	million	million	million
Issued share capital	**1,332.9**	**1,332.9**	**1,332.9**	1,315.6	1,315.6	1,315.6

Basic net asset value per share[1]

	IFRS pence	**Adjusted pence**	**EPRA pence**	IFRS pence	Adjusted pence	EPRA pence
Net tangible assets ("NTA")	**112.5**	**116.7**	**114.1**	107.5	112.9	109.7
Net reinstatement value ("NRV")			**128.3**			123.0
Net disposal value ("NDV")			**110.7**			100.8

1 The above are calculated on a "basic" basis without the adjustment for the impact of the convertible bond which is shown in the diluted basis table below.

***Diluted net asset value per share*[2]**

	31 December 2021			31 December 2020		
	IFRS pence	**Adjusted pence**	**EPRA pence**	IFRS pence	Adjusted pence	EPRA pence
Net tangible assets ("NTA")	**114.7**	**118.6**	**116.2**	110.4	115.4	112.4
Net reinstatement value ("NRV")			**129.4**			124.7
Net disposal value ("NDV")			**113.0**			104.2

2 The Company assesses the dilutive impact of the unsecured convertible bond, issued by the Group on 15 July 2019, on its net asset value per share with a current exchange price of 142.29 pence (31 December 2020: 147.10 pence).

Conversion of the convertible bond would result in the issue of 105.4 million (31 December 2020: 102.0 million) new Ordinary Shares. The IFRS net asset value and EPRA NDV would increase by £171.6 million (31 December 2020: £175.0 million) and the EPRA NTA, adjusted NTA and EPRA NRV would increase by £150.0 million (31 December 2020: £150.0 million). The resulting diluted net asset values per share are anti-dilutive to all measures and are set out in the table above.

10. Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £m	2020 £m
Quarterly interim dividend paid 26 February 2021	**18.7**	—
Scrip dividend in lieu of quarterly cash dividend 26 February 2021	**1.8**	—
Quarterly interim dividend paid 21 May 2021	**17.7**	—
Scrip dividend in lieu of quarterly cash dividend 21 May 2021	**2.9**	—
Quarterly interim dividend paid 20 August 2021	**18.3**	—
Scrip dividend in lieu of quarterly cash dividend 20 August 2021	**2.4**	—
Quarterly interim dividend paid 26 November 2021	**19.7**	—
Scrip dividend in lieu of quarterly cash dividend 26 November 2021	**0.9**	—
Quarterly interim dividend paid 21 February 2020	**—**	16.9
Scrip dividend in lieu of quarterly cash dividend 21 February 2020	**—**	1.0
Quarterly interim dividend paid 22 May 2020	**—**	16.9
Scrip dividend in lieu of quarterly cash dividend 22 May 2020	**—**	1.1
Quarterly interim dividend paid 21 August 2020	**—**	16.4
Scrip dividend in lieu of quarterly cash dividend 21 August 2020	**—**	1.5
Quarterly interim dividend paid 20 November 2020	**—**	18.9
Scrip dividend in lieu of quarterly cash dividend 20 November 2020	**—**	0.6
Total dividends distributed in the year	**82.4**	73.3
Per share	**6.2p**	5.9p

On 6 January 2022, the Board declared an interim dividend of 1.625 pence per Ordinary Share with regard to the year ended 31 December 2021, payable on 25 February 2022. This dividend will comprise wholly of a ordinary dividend of 1.625 pence and no Property Income Dividend ("PID").

11. Investment properties and investment properties under construction

Properties have been independently valued at fair value by Lambert Smith Hampton UK, Jones Lang LaSalle and CBRE Chartered Surveyors and Valuers, as at the balance sheet date in accordance with accounting standards. The valuers have confirmed that they have valued the properties in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards 2017 (the "Red Book"). There were no changes to the valuation techniques during the year. The valuers are appropriately qualified and have sufficient market knowledge and relevant experience of the location and category of investment property and have had full regard to market evidence when determining the values.

The COVID-19 pandemic continues to provide some degree of uncertainty surrounding the valuation of certain property sub-sectors; however, the primary care real estate sector remains robust, and as a result neither UK nor Irish valuers have included a material uncertainty clause in the valuation report at 31 December 2021.

The properties are 99.7% let (2020: 99.6%). The valuations reflected a 4.64% (2020: 4.81%) net initial yield and a 4.74% (2020: 4.84%) true equivalent yield. Where properties have outstanding rent reviews, an estimate is made of the likely rent on review in line with market expectations and the knowledge of the valuers.

In accordance with IAS 40, investment properties under construction have also been valued at fair value by the valuers. In determining the fair value, the valuer is required to value development property as if complete, deduct the costs remaining to be paid to complete the development and consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks and the impact they may have on fair value. In the case of the Group's portfolio under construction, where the sites are pre-let and construction risk remains with the builder/developer, the valuer has deemed that the residual risk to the Group is minimal. As required by the Red Book, the valuers have deducted the outstanding cost to the Group through to the completion of construction of £9.0 million (2020: £32.1 million) in arriving at the fair value to be included in the financial statements.

In addition to the above, capital commitments have been entered into amounting to £19.0 million (2020: £7.5 million) which have not been provided for in the financial statements.

A fair value increase of £0.4 million (2020: £0.2 million) in respect of investment property under construction has been recognised in the Group Statement of Comprehensive Income, as part of the total net valuation gain on the property portfolio in the year of £110.2 million (2020: £51.3 million).

Of the £2,791.4 million (2020: £2,571.6 million) valuation, £2,578.4 million (92%) (2020: £2,373.9 million) relates to investment properties in the UK and £213.0 million (8%) (2020: £197.7 million) relates to investment properties in Ireland.

In line with accounting policies, the Group has assessed whether the acquisitions during the year were asset purchases or business combinations.

	Investment properties freehold[1] £m	Investment properties long leasehold £m	Investment properties under construction £m	Total £m
As at 1 January 2021	2,061.3	491.4	23.4	2,576.1
Property additions	52.4	48.1	22.4	122.9
Property disposals	(2.0)	—	—	(2.0)
Impact of lease incentive adjustment	0.7	0.4	—	1.1

Transfer from properties under construction	23.4	2.9	(26.3)	—
Foreign exchange movements	(9.7)	(2.0)	(0.7)	(12.4)
	2,126.1	540.8	18.8	2,685.7
Revaluations for the year	82.3	27.5	0.4	110.2
As at 31 December 2021	**2,208.4**	**568.3**	**19.2**	**2,795.9**
As at 1 January 2020	1,902.2	476.9	34.0	2,413.1
Property additions	66.3	0.4	33.3	100.0
Property disposals	0.1	—	—	0.1
Impact of lease incentive adjustment	0.9	0.6	—	1.5
Transfer from properties under construction	46.8	—	(46.8)	—
Interest capitalised	—	—	0.7	0.7
Foreign exchange movements	7.0	0.4	2.0	9.4
	2,023.3	478.3	23.2	2,524.8
Revaluations for the year	38.0	13.1	0.2	51.3
As at 31 December 2020	2,061.3	491.4	23.4	2,576.1

1 Includes development land held at £0.9 million (31 December 2020: £0.9 million).

Bank borrowings, bonds and interest rate swaps are secured on investment properties with a value of £2,515.4 million (2020: £2,483.2 million).

Right of use assets

In accordance with IFRS 16 Leases, the Group has recognised a £4.5 million head lease liability and an equal and opposite finance lease asset which is included in non-current assets.

Fair value hierarchy

All of the Group's properties are level 3, as defined by IFRS 13, in the fair value hierarchy as at 31 December 2021 and 31 December 2020. There were no transfers between levels during the year or during 2020. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Valuation techniques used to derive level 3 fair values

The valuations have been prepared on the basis of fair market value ("FMV") which is defined in the RICS Valuation Standards as:

'The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

Valuation techniques: market comparable method

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions and using certain unobservable inputs. These inputs are detailed below.

Unobservable input: estimated rental value ("ERV")

The rent at which space could be let in the market conditions prevailing at the date of valuation. ERV is also used in determining expected rental uplift on outstanding rent reviews.

	2021	2020

ERV – range of the portfolio	**£30,000 – £1,433,486 per annum**	£18,000 – £1,242,000 per annum

Unobservable input: equivalent yield

The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review date, but with no further rental growth.

	2021	2020
True equivalent yield – range of the portfolio	**3.23% – 19.58%**	3.11% – 19.51%

Unobservable input: physical condition of the property

The properties are physically inspected by the valuer on a three-year rotating basis.

Unobservable input: rental growth

The estimated average increase in rent based on both market estimations and contractual situations.

Sensitivity of measurement of significant unobservable inputs

- A decrease in the estimated annual rent will decrease the fair value. A 1% decrease/increase in annual rent would have an approximately £28 million decrease/increase in the investment property valuation.
- A decrease in the equivalent yield will increase the fair value. A 0.10% shift of equivalent yield would have an approximately £60 million impact on the investment property valuation.
- A deterioration in the physical condition of the property will decrease the fair value.
- An increase in the rental growth will increase the fair value.

12. Trade and other receivables

	2021 £m	2020 £m
Trade receivables (net of provision for doubtful debts)	**11.6**	9.8
Prepayments and accrued income	**5.4**	7.1
Other debtors	**0.6**	0.5
	17.6	17.4

The expected credit losses are estimated using a provision matrix by reference to past default experience and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor on the recoverability, general economic conditions of the industry and an assessment of both the current and the forecast direction of conditions at the reporting date. The Group has therefore not recognised a loss allowance because historical experience has indicated that the risk profile of trade receivables is deemed low.

The Group's principal customers are invoiced and pay quarterly in advance, usually on English, Scottish and Gale quarter days. There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants.

13. Cash and cash equivalents

	2021 £m	2020 £m
Cash held at bank	**33.4**	103.6
	33.4	103.6

Bank interest is earned at floating rates depending upon the bank deposit rate. Short term deposits may be made for varying periods of between one day and three months, dependent on available cash and forthcoming cash requirements of the Group. These deposits earn interest at various short term deposit rates.

14. Trade and other payables

	2021 **£m**	2020 £m
Trade payables	**0.6**	0.7
Bank and bond loan interest accrual	**6.3**	8.0
Other payables	**9.1**	8.6
VAT	**6.6**	6.5
Accruals	**17.4**	10.9
	40.0	34.7

15. Borrowings

a) Term loans and overdrafts

The table indicates amounts drawn and undrawn from each individual facility as at 31 December:

		Facility		Amounts drawn		Undrawn	
	Expiry date	**2021** **£m**	2020 £m	**2021** **£m**	2020 £m	**2021** **£m**	2020 £m
Current							
RBS overdraft	Jun 2022	**5.0**	5.0	**—**	—	**5.0**	5.0
Santander[2]	Jul 2021	**—**	30.6	**—**	—	**—**	30.6
Aviva HIL loan[1]	Jan 2032	**—**	1.0	**—**	1.0	**—**	—
Aviva MXF loan	Sep 2033	**2.2**	2.0	**2.2**	2.0	**—**	—
Aviva loan[1]	Jun 2040	**—**	0.7	**—**	0.7	**—**	—
Aviva loan[1]	Aug 2029	**—**	2.7	**—**	2.7	**—**	—
		7.2	42.0	**2.2**	6.4	**5.0**	35.6
Non-current							
Aviva HIL loan[1]	Jan 2032	**—**	19.4	**—**	19.4	**—**	—
Aviva AV loan	Oct 2036	**200.0**	—	**200.0**	—	**—**	—
Aviva loan[1]	Dec 2022	**—**	25.0	**—**	25.0	**—**	—
Aviva loan	Nov 2028	**75.0**	75.0	**75.0**	75.0	**—**	—
Aviva loan[1]	Aug 2024	**—**	50.0	**—**	50.0	**—**	—
Aviva loan[1]	Aug 2029	**—**	57.3	**—**	57.3	**—**	—
Barclays loan	Dec 2023	**100.0**	100.0	**—**	—	**100.0**	100.0
HSBC loan	Nov 2024	**100.0**	100.0	**25.5**	—	**74.5**	100.0
Lloyds loan	Dec 2024	**50.0**	50.0	**38.7**	28.8	**11.3**	21.2
RBS loan[1]	Mar 2022	**—**	100.0	**—**	59.4	**—**	40.7
NatWest loan	Oct 2024	**100.0**	—	**86.3**	—	**13.7**	—
Aviva MXF loan	Sep 2033	**225.2**	227.4	**225.2**	227.4	**—**	—
Aviva MXF loan	Sep 2028	**30.8**	30.8	**30.8**	30.8	**—**	—
Aviva loan[1]	Jun 2040	**—**	24.1	**—**	24.1	**—**	—
		881.0	859.0	**681.5**	597.2	**199.5**	261.9
Total		**888.2**	901.0	**683.7**	603.6	**204.5**	297.5

1 Refinanced during 2021.

2 Facility has been renewed in January 2022. Refer to Note 27 for more details.

	2021	2020
	£m	£m
Balance as at 1 January	**630.0**	688.8
Changes from financing activities		
Term bank loan drawdowns	**335.6**	17.8
New loan facilities drawn	**335.6**	17.8
Repayments of mortgages principal	**(20.4)**	(3.6)
Repayments of term bank loans	**(232.4)**	(72.6)
Repayments of term loan borrowings	**(252.8)**	(76.2)
Loan issue costs for new facilities/refinancing	**(2.7)**	(1.9)
Total changes from financing cash flows	**80.1**	(60.3)
Other non-cash changes		
MtM on loans net of amortisation	**(7.2)**	(2.4)
Amortisation of loan issue costs	**2.2**	2.4
Exchange (gain)/loss on translation of foreign balances	**(2.7)**	1.5
Total other changes	**(7.7)**	1.5
Balance as at 31 December	**702.4**	630.0

At 31 December 2021, total facilities of £1,437.4 million (2020: £1,456.8 million) were available to the Group. This included a £70.0 million secured bond, a £100.0 million secured bond, a £150.0 million nominal value convertible bond, £42.9 million and £58.8 million Euro-denominated bonds, a £50.0 million Ignis loan note, a £77.5 million Standard Life loan note and a £5.0 million overdraft facility. Of these facilities, as at 31 December 2021, £1,232.9 million was drawn (2020: £1,159.3 million).

On 22 October 2021, the Group secured a new £200.0 million 15-year debt facility with Aviva Investors at a fixed rate of 2.52%. The proceeds of the loan have been used to repay a number of legacy facilities with Aviva Investors totalling £177.0 million at a blended fixed rate of 5.0% and weighted average term of just under six years. As part of the refinancing a termination cost of £24.6 million has been paid.

On 27 October 2021, the Group has renewed its existing £100.0 million revolving credit facility with NatWest for a further three-year term with options to extend by a further year on the first and second anniversaries of the new facility.

Costs associated with the arrangement and extension of the facilities, including legal advice and loan arrangement fees, are amortised using the effective interest rate.

Any amounts unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	2021	2020
	£m	£m
Term loans drawn: due within one year	**2.2**	6.4
Term loans drawn: due in greater than one year	**681.5**	597.2
Total terms loans drawn	**683.7**	603.6
Plus: MtM on loans net of amortisation	**29.3**	36.6
Less: unamortised borrowing costs	**(10.6)**	(10.2)

Total term loans per the Group Balance Sheet	**702.4**	630.0

The Group has been in compliance with all of the financial covenants of the above facilities as applicable through the year. Further details are shown in Note 18e.

The Group has entered into interest rate swaps to manage its exposure to interest rate fluctuations. These are set out in Note 17.

b) Bonds

	2021 £m	2020 £m
Unsecured:		
Convertible bond July 2025 at fair value	**171.6**	175.0
Less: unamortised costs	**—**	—
Total unsecured bonds	**171.6**	175.0
Secured:		
Secured bond December 2025	**70.0**	70.0
Secured bond March 2027	**100.0**	100.0
€51 million secured bond (Euro private placement) December 2028-30	**42.9**	45.6
€70 million secured bond (Euro private placement) September 2031	**58.8**	62.6
Ignis loan note December 2028	**50.0**	50.0
Standard Life loan note September 2028	**77.5**	77.5
Less: unamortised bond issue costs	**(3.1)**	(3.6)
Plus: MtM on loans net of amortisation	**5.1**	5.8
Total secured bonds	**401.2**	407.9
Total bonds	**572.8**	582.9

There were no bond conversions during the year (2020: £nil).

Secured bonds

On 18 December 2013, PHP successfully listed the floating rate guaranteed secured bonds issued on 4 November 2013 (the "Secured Bonds") on the London Stock Exchange. The Secured Bonds have a nominal value of £70.0 million and mature on 3 December 2025. The Secured Bonds incur interest at an annualised rate of 220bps above six-month LIBOR, payable semi-annually in arrears.

On 21 March 2017, a £100.0 million Secured Bond was issued for a ten-year term at a fixed coupon of 2.83% that matures on 21 March 2027. Interest is paid semi-annually in arrears.

On 20 December 2018, senior secured notes for a total of €51.0 million (£42.9 million) were issued at a blended fixed rate of 2.4793% and a weighted average maturity of 10.4 years. Interest is paid semi-annually in arrears. The notes represent PHP's first Euro-denominated transaction in the private placement market. The secured notes were placed with UK and Irish institutional investors in two tranches:

- €40.0 million 2.46% senior notes due December 2028.
- €11.0 million 2.633% senior notes due December 2030.

On 16 September 2019, new senior secured notes for a total of €70.0 million (£58.8 million) were issued at a fixed rate of 1.509% and a maturity of twelve years. Interest is paid semi-annually in arrears. The secured notes are guaranteed by the Company and were placed with UK and Irish institutional investors.

Ignis and Standard Life loan notes

On 14 March 2019, the loan notes were added to the portfolio as a part of the MedicX acquisition. The Ignis loan note of £50.0 million incurs a fixed coupon of 3.99% payable semi-annually in arrears and matures on 1 December 2028.

The Standard Life loan note matures on 30 September 2028 and is split into two tranches, £50.0 million and £27.5 million at fixed coupon rates of 3.84% and 3.00% respectively. Interest is payable semi-annually in arrears.

Convertible bond

On 15 July 2019, PHP Finance (Jersey No.2) Limited (the "Issuer"), a wholly owned subsidiary of the Group, issued £150.0 million of 2.875% convertible bonds (the "Bonds") for a six-year term and if not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on maturity in July 2025. The net proceeds were partially used to repay the Company's £75.0 million 5.375% senior unsecured retail bonds at maturity and otherwise for general corporate purposes.

Subject to certain conditions, the Bonds will be convertible into fully paid Ordinary Shares of the Company and the initial exchange price was set at 153.25 pence, a premium of 15% above the volume weighted average price of the Company's shares on 18 June 2019, being 133.26 pence. Under the terms of the Bonds, the Company will have the right to elect to settle exercise of any conversion rights entirely in shares or cash, or with a combination of shares and cash. The exchange price is subject to adjustment if dividends paid per share exceed 2.8 pence per annum and other certain circumstances and consequently the exchange price has been adjusted to 142.29 pence as at 31 December 2021 (2020: 147.10 pence).

	2021 **£m**	2020 £m
Opening balance – fair value	**175.0**	172.7
Issued in the year	**—**	—
Cumulative fair value movement in convertible bond	**(3.4)**	2.3
Closing balance – fair value	**171.6**	175.0

The fair value of the Bonds at 31 December 2021 and 31 December 2020 was established by obtaining quoted market prices. The fair value movement is recognised in the Group Statement of Comprehensive Income within profit before taxation and is excluded from the calculation of EPRA earnings and EPRA NTA (replacing EPRA NAV).

c) Total borrowings

	2021 **£m**	2020 £m
Current liabilities:		
Term loans and overdrafts	**2.2**	6.4
Bonds	**—**	—
Total current liabilities	**2.2**	6.4
Non-current liabilities:		
Term loan and overdrafts	**681.5**	597.2
MtM on loans net of amortisation	**29.3**	36.6
Less: unamortised loan issue costs	**(10.6)**	(10.2)
	700.2	623.6
Bonds	**549.2**	555.7
MtM on loans net of amortisation	**5.1**	5.8

MtM on convertible bond	**21.6**	25.0
Less: unamortised bond issue costs	**(3.1)**	(3.6)
Total non-current bonds	**572.8**	582.9
Total borrowings	**1,275.2**	1,212.9

16. Head lease liabilities

The Group holds certain long leasehold properties which are classified as investment properties. The head leases are accounted for as finance leases. These leases typically have lease terms between 25 years and perpetuity and fixed rentals.

	2021 **£m**	2020 £m
Due within one year	**0.1**	0.1
Due after one year	**4.4**	4.4
Closing balance – fair value	**4.5**	4.5

17. Derivatives and other financial instruments

It is Group policy to maintain the proportion of floating rate interest exposure at between 20% and 40% of total debt facilities. The Group uses interest rate swaps to mitigate its remaining exposure to interest rate risk in line with this policy. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date.

	2021 **£m**	2020 £m
Fair value of interest rate swaps treated as cash flow hedges under IAS 39 (“effective swaps”)		
Non-current liabilities	—	—
	—	—
Fair value of interest rate swaps not qualifying as cash flow hedges under IAS 39 (“ineffective swaps”)		
Non-current assets	**5.2**	—
Non-current liabilities	**(0.8)**	(0.1)
	4.4	(0.1)
Total fair value of interest rate swaps	**4.4**	(0.1)
Shown in the balance sheet as:		
Total non-current assets	**5.2**	—
Total non-current liabilities	**(0.8)**	(0.1)

Changes in the fair value of the contracts that do not meet the strict IAS 39 criteria to be designated as effective hedging instruments are taken to the Group Statement of Comprehensive Income. For contracts that meet the IAS 39 criteria and are designated as “effective” cash flow hedges, the change in fair value of the contract is recognised in the Group Statement of Changes in Equity through the cash flow hedging reserve. The result recognised in the Group Statement of Comprehensive Income on “effective” cash flow hedges in 2021 was a £4.5 million gain (2020: £4.0 million gain), including the amortisation of the cash flow hedging reserve of £4.5 million (2020: £4.4 million).

Interest rate swaps and caps with a contract value of £188.0 million (2020: £188.0 million) were in effect at 31 December 2021. Details of all floating to fixed rate interest rate swap contracts held are as follows:

Contract value	Product	Start date	Maturity	Fixed interest per annum %
2021				
£88.0 million	Swap	September 2020	March 2022	0.0397
£100.0 million	Swap	October 2021	November 2024	0.0699
£(66.0) million	Reverse swap	October 2021	November 2024	2.5200
£66.0 million	Cap	October 2021	November 2024	1.2500
£(67.0) million	Reverse swap	October 2021	November 2024	2.5200
£67.0 million	Cap	October 2021	November 2024	1.2500
£(67.0) million	Reverse swap	October 2021	November 2024	2.5200
£67.0 million	Cap	October 2021	November 2024	1.2500
£188.0 million				
2020				
£88.0 million		September 2020	March 2022	0.0397
£100.0 million		September 2020	November 2024	0.0699
£188.0 million				

On 28 October 2021 the HSBC £100.0 million variable leg of the LIBOR swap was converted to SONIA. The term and fixed rate were unchanged at November 2024 expiry and 0.0699%.

On 27 October 2021 three new swap agreements were entered into totalling £200.0 million. All are effective until 29 November 2024 and receive a fixed rate of 2.52%, with variable rates payable. These included a £66.0 million swap agreement with HSBC paying a variable of SONIA + 1.6275%, a £67.0 million swap agreement with Barclays paying a variable of SONIA + 1.575% and a £67.0 million swap agreement with NatWest paying a variable of SONIA + 1.5849%. A one-off payment of £1.8 million across all three new swap agreements was made to cap SONIA at 1.25% for the length of the agreement, equivalent to 0.1 pence per share on an adjusted net tangible asset value basis.

18. Financial risk management

In pursuing its investment objectives, the Group is exposed to a variety of risks that could impact net assets or distributable profits.

The Group's principal financial liabilities, other than interest rate swaps, are loans and borrowings hedged by these swaps. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has trade and other receivables, trade and other payables and cash and short term deposits that arise directly from its operations.

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Strategic Report. This note provides further detail on financial risk management and includes quantitative information on specific financial risks.

Financial risk factors

a) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating rates as the Group, generally, does not hold significant cash balances, with short term borrowings being used when required. To manage its interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon principal amount. Note 17 provides details of interest swap contracts in effect at the year end.

The sensitivity analysis below shows the impact on profit before tax and equity of reasonably possible movements in interest rates with all other variables held constant. It should be noted that the impact of movement in the interest rate variable is not necessarily linear.

The fair value is arrived at with reference to the difference between the contracted rate of a swap and the market rate for the remaining duration at the time the valuation is performed. As market rates increase and this difference reduces, the associated fair value also decreases.

		Effect on fair value of financial instruments £m	Effect on profit before taxation £m	Effect on equity £m
2021				
London Interbank Offered Rate	Increase of 50 basis points	**5.5**	**6.0**	**11.5**
London Interbank Offered Rate	Decrease of 50 basis points	**(5.5)**	**(6.0)**	**(11.5)**
2020				
London Interbank Offered Rate	Increase of 50 basis points	4.5	5.0	9.5
London Interbank Offered Rate	Decrease of 50 basis points	(4.5)	(5.0)	(9.5)

b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under financial instruments or customer contracts, leading to a financial loss. The Group is exposed to credit risk from its principal financial assets being cash and cash equivalents, and trade and other receivables (see Note 12).

Trade receivables

Trade receivables, primarily tenant rentals, are recognised and carried at amortised cost and presented in the balance sheet net of allowances for doubtful receivables and are monitored on a case-by-case basis. Impairment losses are recognised through the expected credit loss model. Credit risk is primarily managed by requiring tenants to pay rentals in advance.

The Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, but the Group does not monitor the credit quality of receivables on an ongoing basis.

Banks and financial institutions

One of the principal credit risks of the Group arises from financial derivative instruments and deposits with banks and financial institutions. The Board of Directors believes that the credit risk on short term deposits and interest rate swaps is limited because the counterparties are banks, which are committed lenders to the Group, with high credit ratings assigned by international credit rating agencies.

c) Liquidity risk

The liquidity risk is that the Group will encounter difficulty in meeting obligations associated with its financial liabilities as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to maintain a mixture of available cash and committed bank facilities that is designed to ensure that the Group has sufficient available funds for its operations and to fund its committed capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments including interest.

	On demand £m	Less than three months £m	Three to twelve months £m	One to five years £m	More than five years £m	Total £m
2021						
Interest-bearing loans and borrowings	**—**	**9.8**	**29.7**	**514.6**	**1,001.4**	**1,555.5**
Interest rate swaps (net)	**—**	**—**	**—**	**—**	**—**	**—**
Trade and other payables	**1.6**	**29.6**	**3.2**	**2.9**	**2.0**	**39.3**
	1.6	**39.4**	**32.9**	**517.5**	**1,003.4**	**1,594.8**
2020						
Interest-bearing loans and borrowings	—	10.8	32.7	543.5	885.5	1,472.5
Interest rate swaps (net)	—	0.4	1.1	2.1	—	3.6
Trade and other payables	0.5	25.7	4.0	2.4	2.1	34.7
	0.5	36.9	37.8	548.0	887.6	1,510.8

The Group's borrowings have financial covenants which, if breached, could result in the borrowings becoming repayable immediately. Details of the covenants are given below under (e) Capital risk management and are disclosed to the facility providers on a quarterly basis. There have been no breaches during the year (2020: none).

d) Market risk

Market risk is the risk that fair values of financial instruments will fluctuate because of changes in market prices. The Board of Directors has identified two elements of market risk that principally affect the Group – interest rate risk and price risk.

Interest rate risk

Interest rate risk is outlined above. The Board assesses the exposure to other price risks when making each investment decision and monitors the overall level of market risk on the investment portfolio on an ongoing basis through a discounted cash flow analysis. Details of this analysis can be found in the Strategic Report in the Annual Report.

Price risk

The Group is exposed to price risk in respect of property price risk including property rentals risk. Refer to Note 2.3. The Group has no significant exposure to price risk in respect of financial instruments other than the convertible bond and interest rate derivatives (see also Note 17), as it does not hold any equity securities or commodities.

Fair values

Set out below is a comparison by class of the carrying amount and fair values of the Group's financial instruments that are carried in the financial statements.

	Book value 2021 £m	**Fair value 2021 £m**	Book value 2020 £m	Fair value 2020 £m
Financial assets				
Trade and other receivables	**17.6**	**17.6**	17.4	17.4

Effective interest rate swaps	**—**	**—**	—	—
Ineffective interest rate swaps	**5.2**	**5.2**	—	—
Cash and short term deposits	**33.4**	**33.4**	103.6	103.6
Financial liabilities				
Interest-bearing loans and borrowings	**(1,232.9)**	**(1,275.1)**	(1,159.3)	(1,212.9)
Effective interest rate swaps	**—**	**—**	—	—
Ineffective interest rate swaps (net)	**(0.8)**	**(0.8)**	(0.1)	(0.1)
Trade and other payables	**(40.0)**	**(40.0)**	(34.7)	(34.7)

The fair value of the financial assets and liabilities is included as an estimate of the amount at which the instruments could be exchanged in a current transaction between willing parties, other than a forced sale. The following methods and assumptions were used to estimate fair values:

- The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements due to the short term nature of these instruments.
- The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for instruments with similar terms and remaining maturities. The fair value approximates their carrying values, gross of unamortised transaction costs.
- The fair value of fixed rate debt is estimated using the mid yield to maturity on the reporting date. The valuations are on a clean basis, which exclude accrued interest from the previous settlement date to the reporting date.
- The fair values of the derivative interest rate swap contracts are estimated by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value measurements at 31 December 2021 were as follows:

Recurring fair value measurements	**Level 1** [1] **£m**	**Level 2** [2] **£m**	**Level 3** [3] **£m**	**Total £m**
Financial assets				
Derivative interest rate swaps	**—**	**5.2**	**—**	**5.2**
Financial liabilities				
Derivative interest rate swaps	**—**	**(0.8)**	**—**	**(0.8)**
Convertible bond	**(171.6)**	**—**	**—**	**(171.6)**
Fixed rate debt	**—**	**921.3**	**—**	**921.3**

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
3 Valuation is based on inputs that are not based on observable market data.

Fair value measurements at 31 December 2020 were as follows:

Recurring fair value measurements	Level 1[1] £m	Level 2[2] £m	Level 3[3] £m	Total £m
Financial assets				
Derivative interest rate swaps	—	—	—	—
Financial liabilities				
Derivative interest rate swaps	—	(0.1)	—	(0.1)
Convertible bond	(175.0)	—	—	(175.0)
Fixed rate debt	—	(981.5)	—	(981.5)

1 Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
2 Valuation is based on inputs (other than quoted prices included in level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
3 Valuation is based on inputs that are not based on observable market data.

The interest rate swaps whose fair values include the use of level 2 inputs are valued by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument. The following inputs are used in arriving at the valuation:

- interest rates;
- yield curves;
- swaption volatility;
- observable credit spreads;
- credit default swap curve; and
- observable market data.

e) Capital risk management

The primary objectives of the Group's capital management are to ensure that it remains a going concern, operates within its quantitative banking covenants and meets the criteria so as to continue to qualify for UK REIT status.

The capital structure of the Group consists of shareholders' equity and net borrowings. The type and maturity of the Group's borrowings are analysed further in Notes 15 and 17 and the Group's equity is analysed into its various components in the Group Statement of Changes in Equity. The Board monitors and reviews the Group's capital so as to promote the long term success of the business, to facilitate expansion and to maintain sustainable returns for shareholders.

Under several of its debt facilities, the Group is subject to a covenant whereby consolidated Group rental income must exceed Group borrowing costs by the ratio 1.3:1 (2020: 1.3:1). No debt facility has a Group loan to value covenant.

Facility-level covenants also operate with regard to specific pools of property assets provided to lenders to secure individual loan facilities. These range as follows:

- interest cover[1]: 1.05 to 2.25 (2020: 1.05 to 1.75); and
- loan to value[1]: 55% to 75% (2020: 55% to 75%).

UK REIT compliance tests include loan to property value and gearing tests. The Group must satisfy these tests in order to continue trading as a UK REIT. This is also an internal requirement imposed by the Articles of Association.

1 See Glossary of Terms.

During the period the Group has complied with all of the requirements set out above.

Group loan to value ratio	**2021** **£m**	2020 £m
Fair value of completed investment properties	**2,772.2**	2,548.2
Fair value of development properties	**19.2**	23.4
Ground rent recognised as finance leases	**4.5**	4.5
	2,795.9	2,576.1
Interest-bearing loans and borrowings (with convertible bond at nominal value)	**1,232.9**	1,159.3
Less cash held	**(33.4)**	(103.6)
Nominal amount of interest-bearing loans and borrowings	**1,199.5**	1,055.7
Group loan to value ratio	**42.9%**	41.0%

19. Share capital

Ordinary Shares issued and fully paid at 12.5 pence each

	2021		2020	
	Number – million	**2021 £m**	Number – million	2020 £m
Balance at 1 January	**1,315.6**	**164.4**	1,216.3	152.0
Scrip issues in lieu of cash dividends	**5.2**	**0.7**	2.7	0.3
Share issue 9 July 2020 and 5 January 2021	**11.5**	**1.4**	96.6	12.1
Share issues on other acquisitions	**0.6**	**0.1**	—	—
Balance at 31 December	**1,332.9**	**166.6**	1,315.6	164.4

Issue of shares in 2021

	Date of issue	Number of shares – million	Issue price
Share issue	5 January 2021	11.5	152.80p
Scrip issue in lieu of cash dividend	26 February 2021	1.2	148.52p
Scrip issue in lieu of cash dividend	21 May 2021	1.9	148.98p
Scrip issue in lieu of cash dividend	20 August 2021	1.5	159.50p
Share issue on other acquisition	23 September 2021	0.6	168.02p
Scrip issue in lieu of cash dividend	26 November 2021	0.6	154.90p

20. Share premium

	2021 £m	2020 £m
Balance at 1 January	**466.7**	338.1
Scrip issue in lieu of cash dividend	**7.4**	3.9
Share issue 9 July 2020 and 5 January 2021	—	127.9
Premium on shares issued for Nexus merger	—	—
Share issue on other acquisitions	**0.9**	—
Shares issued on bond conversions	—	—
Share issue expense	**(0.1)**	(3.2)
Balance at 31 December	**474.9**	466.7

21. Merger and other reserves

The merger and other reserves are made up of the capital reserve which is held to finance any proposed repurchases of Ordinary Shares, following approval of the High Court in 1998, the foreign exchange translation reserve and the premium on shares issued for the MedicX Fund Limited merger and the Nexus merger.

	2021 £m	2020 £m
Capital reserve		
Balance at 1 January and 31 December	**1.6**	1.6
Foreign exchange translation reserve		
Balance at 1 January	**1.2**	(1.0)
Exchange differences on translating the net assets of foreign operations	**(3.4)**	2.2
Balance at 31 December	**(2.2)**	1.2
Merger reserve		
Balance at 1 January	**398.0**	398.0
Shares issued on acquisition of Nexus	**16.1**	—
Balance at 31 December	**414.1**	398.0
Balance of merger and other reserves at 31 December	**413.5**	400.8

22. Special reserve

	2021 £m	2020 £m
Balance at 1 January	**—**	65.4
Dividends paid	**—**	(61.2)
Scrip issue in lieu of cash dividend	**—**	(4.2)
Balance at 31 December	**—**	—

The special reserve has arisen on previous issues of the Company's shares. It represents the share premium on the issue of the shares, net of expenses, from issues effected by way of a cash box mechanism.

A cash box raising is a mechanism for structuring a capital raising whereby the cash proceeds from investors are invested in a subsidiary company of the Parent instead of the Parent itself. Use of a cash box mechanism has enabled the share premium arising from the issue of shares to be deemed to be a distributable reserve and has therefore been shown as a special reserve in these financial statements. Any issue costs are also deducted from the special reserve.

As the special reserve is a distributable reserve, the dividends distributed in the previous periods have been distributed from this reserve. The remaining dividends distributed in the period have been distributed from retained earnings.

23. Cash flow hedging reserve

Information on the Group's hedging policy and interest rate swaps is provided in Note 17.

The transfer to the Group Statement of Comprehensive Income and the fair value movement on cash flow hedges which meet the effectiveness criteria under IAS 39, taken to equity, can be analysed as follows:

	2021	2020
	£m	£m
Balance at 1 January	**(20.1)**	(24.1)
Fair value movement on cash flow hedges	**—**	(0.4)
Amortisation of cash flow hedging reserve	**—**	4.4
Net movement on cash flow hedges ("effective swaps") and amortisation of cash flow hedging reserve	**4.5**	4.0
Balance at 31 December	**(15.6)**	(20.1)

The balance within the cash flow hedge reserve relating to cancelled swaps will be amortised through the Group Statement of Comprehensive Income over the remainder of the original contract period (see Note 6b).

24. Retained earnings

	2021	2020
	£m	£m
Balance at 1 January	**402.6**	298.5
Retained profit for the year	**140.1**	112.0
Dividends paid	**(74.4)**	(7.9)
Scrip dividend in lieu of cash	**(8.0)**	—
Share-based awards ("LTIP")	**0.2**	—
Balance at 31 December	**460.5**	402.6

25. Capital commitments

As at 31 December 2021, the Group has entered into forward funding development agreements with third parties for the development of primary healthcare properties in the UK and Ireland. The Group has acquired the land and advances funds to the developers as the construction progresses. Total consideration of £9.0 million (2020: £32.1 million) remains to be funded with regard to these properties.

As at 31 December 2021, the Group has capital commitments totalling £10.0 million (2020: £7.5 million) being the cost to complete asset management projects on site, and £10.7 million (2020: £nil) being the cost to complete investments.

26. Related party transactions

On 5 January 2021 the Group completed the acquisition of Nexus and internalised the management arrangements. Refer to Note 4a for details on payments made and received in relation to shared services with Nexus, and on fees payable to Nexus in prior periods. Refer to Note 7 for further information on the acquisition of Nexus.

27. Subsequent events

On 11 February 2022, the Group completed a €75.0 million private placement for a term of twelve years at 1.64%.

On 6 January 2022, the Group refinanced a £50.0 million revolving credit facility with Santander. The facility can be drawn in Sterling and Euros and has an interest rate of 1.65% plus SONIA or EURIBOR.

28. Audit exemptions taken for subsidiaries

The following subsidiaries are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of the Act.

Name	Companies House registration number
Primary Health Investment Properties (No. 8) Limited	11274227
Primary Health Investment Properties (No. 9) Limited	11328330
PHP Euro Private Placement ML Limited	11714222
PHP Epsom Limited	12004850
GP Property One Limited	10801028
PHP SPV Limited	12256431
PHP Primary Properties (Haymarket) Limited	08304612
Motorstep Limited	04532029
MXF Properties OM Holdings Limited	10946803
MXF Properties OM Group Limited	07039742
MXF Properties Bridlington Limited	07763871
PHP Liverpool Holding Company Limited	07342781
PHP Tradeco Holdings Limited	09642987
PHP Cardiff Group Limited	10253987
PHP (Spilsby) Limited	13735391
PHP Health Solutions Limited	06949900
PHP Liverpool Limited	08872347
PHP Tradeco Limited	07685933
PHP Property Management Services Limited	02877191
PHP Primary Care Developments Limited	11862233
PHP Cardiff Limited	10254492
PHP Developments (Cardiff) Limited	04856121

DIRECTORS' RESPONSIBILITY STATEMENT

Statement of Directors' responsibilities in respect of the Group and Company financial statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 Reduced disclosure framework. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 15 February 2022.

For and on behalf of the Board

Steven Owen
Chairman
15 February 2022

GLOSSARY OF TERMS

Adjusted earnings is EPRA earnings excluding the exceptional contract termination fee and amortisation of MtM adjustments for fixed rate debt acquired on the merger with MedicX.

Adjusted earnings per share is adjusted earnings divided by the weighted average number of shares in issue during the year.

Adjusted net tangible assets ("adjusted NTA") (which has replaced the former adjusted EPRA net asset value alternative performance measure) is EPRA net tangible asset value excluding the MtM adjustment of the fixed rate debt, net of amortisation, acquired on the merger with MedicX. The objective of the adjusted NTA measure is to highlight the value of net assets on a long term basis and excludes assets and liabilities that are not expected to crystallise in normal circumstances and continues to be used as a measure to determine the PIF payment.

Adviser is PHP Tradeco Limited.

Annualised rental income on a like-for-like basis is the contracted rent on a per annum basis assuming a consistent number of properties between each year.

Building Research Establishment Environmental Assessment Method ("BREEAM") assesses the sustainability of buildings against a range of criteria.

Clinical Commissioning Groups ("CCGs") are the groups of GPs and other healthcare professionals that are responsible for designing local health services in England with effect from 1 April 2013.

Company and/or **Parent** is Primary Health Properties PLC ("PHP").

Direct property costs comprise ground rents payable under head leases, void costs, other direct irrecoverable property expenses, rent review fees and valuation fees.

District Valuer ("DV") is the District Valuer Service, being the commercial arm of the Valuation Office Agency ("VOA"). It provides professional property advice across the public sector and in respect of primary healthcare represents NHS bodies on matters of valuation, rent reviews and initial rents on new developments.

Dividend cover is the number of times the dividend payable (on an annual basis) is covered by EPRA earnings.

EPC is an Energy Performance Certificate

Earnings per Ordinary Share from continuing operations ("EPS") is the profit attributable to equity holders of the Parent divided by the weighted average number of shares in issue during the year.

European Public Real Estate Association ("EPRA") is a real estate industry body, which has issued Best Practice Recommendations in order to provide consistency and transparency in real estate reporting across Europe.

EPRA cost ratio is the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA earnings is the profit after taxation excluding investment and development property revaluations, gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA net assets ("EPRA NAV") are the balance sheet net assets excluding own shares held, the MtM value of derivative financial instruments and the convertible bond fair value movement.

EPRA NAV per share is the balance sheet net assets excluding own shares held, the MtM value of derivative financial instruments and the convertible bond fair value movement, divided by the number of shares in issue at the balance sheet date.

EPRA NNNAV is adjusted EPRA NAV including the MtM value of fixed rate debt and derivatives.

EPRA net reinstatement value ("EPRA NRV") is the balance sheet net assets including real estate transfer taxes but excluding the MtM value of derivative financial instruments, deferred tax and the convertible bond fair value movement. The aim of the metric is to reflect the value that would be required to recreate the Company through the investment markets based on its current capital and financing structure. Refer to Note 9.

EPRA NRV per share is the EPRA net reinstatement value divided by the number of shares in issue at the balance sheet date. Refer to Note 9.

EPRA net disposal value ("EPRA NDV") (replacing EPRA NNNAV) is adjusted EPRA NRV including deferred tax and the MtM value of fixed rate debt and derivatives. The aim of the metric is to reflect the value that would be realised under a disposal scenario. Refer to Note 9.

EPRA net tangible assets ("NTA") (which has replaced the former EPRA net asset value alternative performance measure) are the balance sheet net assets but excluding the MtM value of derivative financial instruments, deferred tax and the convertible bond fair value movement. The aim of the metric is to reflect the fair value of the assets and liabilities of the Group that it intends to hold and does not intend in the long run to sell. Refer to Note 9.

EPRA NTA per share is the EPRA net tangible assets divided by the number of shares in issue at the balance sheet date. Refer to Note 9.

EPRA vacancy rate is, as a percentage, the ERV of vacant space in the Group's property portfolio divided by ERV of the whole portfolio.

Equivalent yield (true and nominal) is a weighted average of the net initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. The true equivalent yield assumes rents are received quarterly in advance. The nominal equivalent assumes rents are received annually in arrears.

Estimated rental value ("ERV") is the external valuer's opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Gross rental income is the gross accounting rent receivable.

Group is Primary Health Properties PLC ("PHP") and its subsidiaries.

HSE or **the Health Service Executive** is the executive agency of the Irish Government responsible for health and social services for people living in Ireland.

IFRSs are International Financial Reporting Standards as adopted by the United Kingdom.

IFRS or **Basic net asset value per share ("IFRS NAV")** is the balance sheet net assets, excluding own shares held, divided by the number of shares in issue at the balance sheet date.

Interest cover is the number of times net interest payable is covered by net rental income.

Interest rate swap is a contract to exchange fixed payments for floating payments linked to an interest rate, and is generally used to manage exposure to fluctuations in interest rates.

London Interbank Offered Rate ("LIBOR") is the interest rate charged by one bank to another for lending money.

Loan to value ("LTV") is the ratio of net debt to the total value of property and assets.

Mark to market ("MtM") is the difference between the book value of an asset or liability and its market value.

MedicX is MXF Fund Limited and its subsidiaries.

MSCI (IPD) provides performance analysis for most types of real estate and produces an independent benchmark of property returns.

MSCI (IPD) Healthcare is the UK Annual Healthcare Property Index.

MSCI (IPD) total return is calculated as the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period, as calculated by MSCI (IPD).

Net asset value ("NAV") is the value of the Group's assets minus the value of its liabilities.

Net initial yield ("NIY") is the annualised rents generated by an asset, after the deduction of an estimate of annual recurring irrecoverable property outgoings, expressed as a percentage of the asset valuation (after notional purchasers' costs).

Net rental income is the rental income receivable in the period after payment of direct property costs. Net rental income is quoted on an accounting basis.

Net zero carbon refers to the point at which a process, activity, system etc… produces net zero carbon emissions, through emissions reduction, use of low or zero carbon energy and removal or offsetting of residual emissions. In the context of buildings and activities associated with the construction, refurbishment, maintenance and operation of buildings, PHP refers to the UK Green Building Council "Net zero carbon, a frame work definition" (https://www.ukgbc.org/ukgbc-work/net-zero-carbon-buildings-a-framework-definition/). This sets out the key requirements for buildings to achieve 'net zero carbon - construction' and 'net zero carbon – operational energy'.

NHSPS is NHS Property Services Limited, the company wholly owned and funded by the Department of Health, which, as of 1 April 2013, has taken on all property obligations formerly borne by Primary Care Trusts.

Parity value is calculated based on dividing the convertible bond value by the exchange price.

Property Income Distribution ("PID") is the required distribution of income as dividends under the REIT regime. It is calculated as 90% of exempted net income.

Real Estate Investment Trust ("REIT") is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK profits, arising from property rental income and gains on investment property disposals, from corporation tax, but which has a number of specific requirements.

Rent reviews take place at intervals agreed in the lease and their purpose is usually to adjust the rent to the current market level at the review date.

Rent roll is the passing rent, being the total of all the contracted rents reserved under the leases.

Reversionary yield is the anticipated yield which the initial yield will rise to once the rent reaches the ERV and when the property is fully let. It is calculated by dividing the ERV by the valuation.

Retail Price Index ("RPI") is the official measure of the general level of inflation as reflected in the retail price of a basket of goods and services such as energy, food, petrol, housing, household goods, travelling fare, etc. RPI is commonly computed on a monthly and annual basis.

RICS is the Royal Institution of Chartered Surveyors.

RPI linked leases are those leases which have rent reviews which are linked to changes in the RPI.

Special reserve is a distributable reserve.

Sterling Overnight Interbank Average Rate ("SONIA") is the effective overnight interest rate paid by banks for unsecured transactions in the British Sterling market.

Total expense ratio ("TER") is calculated as total administrative costs for the year divided by the average total asset value during the year.

Total property return is the overall return generated by properties on a debt-free basis. It is calculated as the net rental income generated by the portfolio plus the change in market values, divided by opening property assets plus additions.

	£m
Net rental income	136.7
Revaluation surplus and profit on sales	110.5
	247.2
Opening property assets	2,576.1
Weighted additions in the period	33.1
	2,609.2
Total property return	9.5%

Total NAV return is calculated as the movement in adjusted net tangible asset value for the period plus the dividends paid, divided by opening EPRA net tangible asset value.

	NAV
At 31 December 2020	112.9
At 31 December 2021	**116.7**
Increase/(decrease)	**3.8**
Add: dividends paid	
Q1 interim	1.550
Q2 interim	1.550
Q3 interim	1.550
Q4 interim	1.550
Total shareholder return	**10.0**

Total shareholder return is calculated as the movement in the share price for the period plus the dividends paid, divided by the opening share price.

Weighted average facility maturity is calculated by multiplying each tranche of Group debt by the remaining period to its maturity and dividing the result by total Group debt in issue at the year end.

Weighted average unexpired lease term ("WAULT") is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

Yield on cost is the estimated annual rent of a completed development divided by the total cost of development, including site value and finance costs expressed as a percentage return.

Yield shift is a movement (usually expressed in basis points) in the yield of a property asset, or like-for-like portfolio, over a given period. Yield compression is a commonly used term for a reduction in yields.